Hormel

ANNUAL REPORT

GEO. A. HORMEL & COMPANY, AUSTIN, MINNESOTA / FISCAL YEAR ENDED OCTOBER 31, 1987

Two cornerstone products, SPAM® luncheon meat (1937-87) and Cure 81® ham (1963-88), bring together three quarters of a century of unequaled consumer trust and loyalty.

PAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM®
81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cu

The two historic products depicted on this 1987 Annual Report cover represent 75 years of creativity and commitment to quality by Geo. A. Hormel & Company.

1987 was the year in which the 50th anniversary of SPAM® luncheon meat was celebrated. The unprecedented media attention it generated reaffirmed its venerable status as a staple — not only of this Company — but of our nation.

1988 marks the 25th anniversary of another Company standard-bearer, Cure 81® ham, the brand that carried America's favorite picnic meat to the banquet table. Also known for its status as a category leader, Cure 81® ham enjoys a preeminent image for excellence.

SPAM® luncheon meat.

Cure 81® ham.

Two names associated with product superiority; two names which established early our corporation's approach and success to becoming a consumer-driven company creating and fulfilling consumer-driven needs.

AM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SPAM® SP
1® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 81® cure 8

Profile of the Company

The business of Geo. A. Hormel & Company is based on a 96-year-old tradition as a supplier of high-quality food products throughout the United States and in many foreign countries.

Today, Hormel and its family of subsidiaries produce and market thousands of processed, packaged food products which are known and respected for high standards of quality by consumers, retail grocers, foodservice and industrial customers. Many of the Company's products are among the best-known consumer foods, enjoying strong brand identification and leading market shares.

The principal products are branded, processed red meats which are sold fresh, frozen, cured, smoked, cooked and canned. Included are sausages, hams, wieners, bacon, canned luncheon meats, stews, chilies, hash and meat spreads. In addition, through two wholly owned subsidiaries, the Company is a leading producer and marketer of whole and processed turkey products and grain-fed, farm-raised catfish.

The Company's products are sold in all 50 states by sales representatives operating in assigned territories coordinated from district sales offices located in most of the larger United States cities and by brokers and distributors who handle carload lot sales.

The Company has manufacturing plants in Fremont, Neb., and Springfield, Mo., that slaughter livestock for processing. In addition, processing plants are located in Algona, Iowa; Austin, Minn.; Beloit, Wis.; Dallas, Texas; Davenport, Iowa; Fort Worth, Texas; Houston, Texas; Knoxville, Iowa; Oklahoma City, Okla.; Renton, Wash.; Stockton, Calif., and Tucker, Ga.

Hormel also operates nine distribution centers along the West Coast, South Atlantic Coast, Gulf Coast and Hawaii. Their main function is to provide dry and cold storage facilities for the distribution of products to local market areas. Distribution centers are located in Charlotte, N.C.; Chattanooga, Tenn.; Hayward, Calif.; Honolulu, Hawaii; LaMirada, Calif.; Montgomery, Ala.; New Orleans, La.; Orlando, Fla., and San Antonio, Texas.

Wholly owned subsidiaries of Geo. A. Hormel & Company include Hormel International Corporation, Austin, Minn.; FDL Marketing, Inc., Dubuque, Iowa; Jennie-O Foods, Inc., Willmar, Minn.; Farm Fresh Catfish Company, Inc., Hollandale, Miss.; Dold Foods, Inc., Wichita, Kan.; Catalogue Marketing, Inc., Austin, Minn., and Algona Food Equipment Company, Algona, Iowa.

Hormel operates in international areas, including the Philippines, Japan, England and various other European countries through Hormel International Corporation. In addition, Hormel International Corporation owns two domestic corporations, Vista International Packaging, Inc., a food packaging company based in Kenosha, Wis., and Hormel FSC, Inc., a small foreign sales corporation headquartered in Austin, Minn., which engages in export related activities.

Geo. A. Hormel & Company products are sold under a number of well-established brand names. The Company's leading brands are symbols of quality and value. The more commonly known trademarks which are important to the Company's business are as follows:

Hormel	**Jennie-O**
Black Label	**Light & Lean**
Broiled & Browned	**Little Sizzlers**
Cure 81	**Mary Kitchen**
Curemaster	**New Traditions**
Di Lusso	**Range Brand**
Dinty Moore	**SPAM**
Farm Fresh	**Super Select**
Frank 'N Stuff	**Top Shelf**
Homeland	**Wranglers**

References appearing in boldface in this 1987 Annual Report to Stockholders represent trademarks or product names owned by Geo. A. Hormel & Company or its subsidiaries.

Geo. A. Hormel & Company is a corporate enterprise owned by more than 7,000 stockholders and, in addition, has approximately 8,900 employees, including subsidiaries. Each employee is committed to serving the needs of customers in the many markets in which it competes.

R. L. Knowlton, Hormel board chairman, president and chief executive officer.

Letter to Stockholders, Employees and Friends

It is a pleasure to report to you on the extremely fine performance of the Company during the past year. By any measurement, fiscal 1987 was the Company's finest — our all-around best year by a wide margin.

Significantly, the Company exceeded $2 billion in sales for the first time in its 96-year history. For the fourth consecutive year, net earnings, dollar sales and corresponding tonnage volumes attained record levels.

Equally important, the Company launched two exciting product concepts — **Top Shelf** entrees and the **New Traditions** line of dinner meats, breakfast meats, breakfast sandwiches and hamburgers that will serve as cornerstones for our future. In 1987, the premier food industry magazine, *Prepared Foods*, selected Hormel as the "New Products Company of the Year." This was in recognition of the more than 130 distinctively new products introduced during the past 18 months.

Particularly impressive was the fact that our Company managed this progress despite increases in pork raw material costs that were the highest on record. The Company's record of improving consecutively its net income and yearly sales is the strongest possible evidence that our ability to prosper is not dependent upon favorable cycles in the pork industry. It is also a measurement of Company progress in refocusing its operations and successfully making the transition from a traditional meat processor to a fully diversified, consumer-based food company.

The Company's performance during the fourth quarter is worthy of special mention. At no time has our Company experienced such intensive sales and marketing efforts as were demonstrated throughout the record setting fourth quarter. The value of advertising the Company received during the Chairman's Blitz campaign is difficult to measure. Unquestionably, it was extremely impressive with virtually every major retail chain responding to Company marketing and sales initiatives.

During the year, a new Frozen Foods Division was established. The many frozen foods products that were previously marketed through the Meat Products Group and Prepared Foods Group of the Company were consolidated into one major division. Marvin F. Moes was named vice president of this newly formed division.

In September, the Company signed a new five-year agreement with FDL Foods, Inc., Dubuque, Iowa, ensuring that FDL Marketing, Inc., a wholly owned subsidiary of Hormel, would continue as the exclusive marketer of all fresh meat and processed products produced by FDL Foods. Our plans are to build this organization into a major contributor to the Company's long-term growth. We have already brought to FDL Marketing a number of quality management people. The results of the past two months indicate that future opportunities for this business segment are excellent.

The Company's catalog business progressed nicely last year and was profitable. At midyear, the acquisition of Sunshine Shippers, Inc., San Jose, Calif., was completed. The number two marketer of fruit and food gifts, this new company complements our existing catalog business and improves the corporation's presence in the growing gift catalog industry.

Our successful performance during the year was a direct result of the quality of our management. We further strengthened our management team with the addition and promotion of several key executives.

Ronald E. Plath was named president of Hormel International Corporation, succeeding Raymond J. Asp, executive vice president of the Company. Asp retired after 36 years of excellent service and had been a member of the Hormel Board of Directors for more than 17 years. He had spent much of his career in various executive capacities with the Prepared Foods Group and, during his later years, had final responsibility for the development of Company international operations.

Early in the year, Forrest D. Dryden was elected a vice president of the corporation. He is responsible for the Company's Research and Development Division and is directly involved in our many new product and process development efforts.

In August, Scott A. Wallace was employed by the Company as senior vice president of strategic planning and corporate development. A highly experienced marketing executive, Wallace formerly served as president of Swift & Company's Consumer Products Division; as a top officer with Brown and Williamson, a national tobacco products firm, and, most recently, as executive vice president of marketing for Coca-Cola Foods, Inc.

In December, James A. Silbaugh, group vice president of the Meat Products Group, retired after 40 years of outstanding performance. He has made immense contributions to not only the Meat Products Group during the past six years but also to the successes recorded in the Prepared Foods Group where he spent most of his Hormel career.

Joining our Board of Directors this past fiscal year was Earl B. Olson, founder and current board chairman of Jennie-O Foods, Inc., which now operates as a wholly owned Company subsidiary. His many business achievements and close association with agriculture and the turkey processing industry bring additional strength and experience to the Hormel Board.

Those of you who follow this report and the Company's progress will note the building of a very strong organization that is enjoying its greatest moment. With unparalleled financial strength, exceptional operational performance, a large number of revolutionary new products and a group of employees second to none, our Company is positioned to establish new records for profit and volume as it has for the past four years. It is with great confidence and enthusiasm that our Company fully expects to set new performance records in 1988 and in the years beyond.

R. L. KNOWLTON
Chairman of the Board
President and Chief Executive Officer


Hormel
NEW TRADITIONS
HAMBURGERS
BRAND
MICROWAVE
FULLY COOKED—KEEP FROZEN
2 SANDWICHES
Thick'n Rich
Old Smokehouse
Hormel
BAR-B-Q SAUCE
NET WT. 18 OZ. (510g)
Hormel
FRANK 'N STUFF
Franks with a tunnel of Cheese
CHEESE
Prepared Foods
THE MAGAZINE FOR PACKAGED FOODS/A GORMAN PUBLICATION
1987/$25
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NOT-SO-SLOPPY-JOE
Hormel
SLOPPY JOE SAUCE
BAVARIAN BRAND
Hormel
Bratwurst
NEW
Top Shelf
2 Minute Entrees
Microwaveable
Ready to Serve
Vacuum Packed
No Preservatives
Hormel
NET WT. 10.5 OZS. (298g)
Sweet and Sour Chicken
With Oriental Vegetables and Rice
BROILED &
SKINLESS
Hot 'n Spicy
FULLY COOKED READY TO MICROWAVE
FULLY COOKED MICROWAVE READY
Hormel
NEW TRADITIONS
EGG & BACON BISCUITS
BRAND
2 BISCUITS

The Year in Review

Building on the momentum and strong, steady advances of recent years, Geo. A. Hormel & Company reported landmark achievements during fiscal 1987 that are reflected in major year-end financial barometers.

It was the best financial performance in the Company's 96-year history. Sales, earnings and earnings per share attained record highs for the fourth consecutive year. Total assets reached an all-time high, increasing for the 15th consecutive year. Cash dividends increased for the 21st consecutive year and the Company's common stock split two-for-one for the second time in less than two years.

Highlighting this gratifying record were improved and effective performances registered by the Company's major operating and marketing groups and the acquisition early in the year of Jennie-O Foods, Inc., one of the nation's largest privately owned processors and marketers of turkey products. Major contributing factors were the Company's refocused operations and its continued successful transformation from an old-line meatpacker dependent upon cyclical, commodity-oriented products to a market-driven food processor emphasizing a mix of higher-margin, value-added branded food products.

Of even greater significance was that fiscal 1987 demonstrated how Geo. A. Hormel & Company is preparing for the future. The noteworthy accomplishments and the many extraordinary strengths have provided the groundwork for continued growth throughout the remaining decade of the 1980s and beyond.

Sales Dollars Surpass $2 Billion

Dollar sales exceeded the $2 billion mark in 1987. This benchmark figure was attained just 11 years after reaching the $1 billion milestone in 1976. It had previously taken the Company 85 years to pass $1 billion in sales.

During the year, sales increased each quarter en route to the record year-end total of $2,314,082,000. This represents a gain of 18.1 percent, or $353,845,000, over the previous record of $1,960,237,000 established last year. Fiscal 1987 was a 53-week year as contrasted to a 52-week year in 1986.

Excellent sales campaigns were conducted during the year by the Meat Products Group and Prepared Foods Group of the Company. Both enjoyed significant sales and tonnage increases derived principally from strong market shares developed for existing products and growing retail and consumer response to the broadening varieties of recent new product introductions. Providing support to these successes were planned sales volume contributions by FDL Marketing, Inc., and Jennie-O Foods, Inc., two wholly owned Company subsidiaries.

Net Earnings Highest in Company History

Perhaps the most rewarding measurement of the Company's financial performance in fiscal 1987 was the increase in net earnings to record levels for the fourth consecutive year.

For the year ended October 31, 1987, net earnings were $45,944,000, or $1.20 per share, when adjusted for the two-for-one split of the Company's common stock which became effective June 1, 1987. This amounted to a 17.6 percent increase, or $6,865,000, over fiscal 1986 record net earnings of $39,079,000, or $1.02 per share.

It was the best financial performance in the Company's 96-year history. Sales, earnings and earnings per share attained record highs for the fourth consecutive year. Fiscal 1987 demonstrated how Geo. A. Hormel & Company is preparing for the future.

Page 4: Geo. A. Hormel & Company was named "New Products Company of the Year" by one of the nation's premier food industry magazines.

Record earnings were achieved despite severe pressure on margins caused by pork raw material costs that were among the highest ever experienced. Offsetting this nearly year-long problem were higher sales volumes in many branded product lines, plant utilization efficiencies and productivity improvements, tight internal cost controls and successful new product introductions.

The outstanding campaigns at the close of the 1986 fiscal year adversely impacted sales and earnings for the first quarter of 1987. The decrease was more than recovered during the second quarter with dollar sales jumping 25.9 percent and net earnings nearly double those of the comparable year-earlier 13-week period.

The improvement continued into the second half with third quarter sales rising 18.5 percent and net earnings 24.8 percent. Capping the year's growth momentum was a record setting 14-week fourth quarter in which sales and net earnings surpassed previous all-time highs established one year earlier during the 13-week concluding quarter.

Additional Financial Highlights

A bright spot for the future is the Company's excellent balance sheet which is one of the strongest in the food industry. Internally generated funds and the borrowing of $25 million provided the cash required to finance acquisitions; continue improvements to property, plant and equipment; to make quarterly stockholder dividend payments, and to provide for increased working capital needs.

At year-end, the Company's ratio of total debt to invested capital (equity plus total debt) was 21.1 percent compared to 15.9 percent at the end of 1986.

Stockholders' investment reached $373,120,000, an increase of $33,195,000,or 9.8 percent, over the prior year's total of $339,925,000. Stockholders' investment per share rose $.86 to $9.71 at the end of 1987 from $8.85 one year earlier. The Company has 38,426,064 shares of common stock issued.

Total assets rose to a high of $697,970,000, an increase of $113,226,000 over last year.


Quality
Hormel
COMPANY MISSION
"To be a leader in the food field with highly-differentiated quality products that attain optimum share of market while meeting established profit objectives."
QUALITY POLICY
"We will supply defect-free products and services which conform to clearly defined requirements to meet the needs of our customers, employees and others we serve."
The four absolutes of quality management form the foundation of this policy. They are:
The Definition of Quality is Conformance to Requirements
The System of Quality is Prevention
The Performance Standard is Zero Defects
The Measurement of Quality is the Price of Nonconformance
Hormel

Capital Additions

During fiscal 1987, \$18,332,000 was invested to improve productivity and increase operating efficiencies. In addition to meeting these important goals, continued strong emphasis was placed on the installation of proprietary technology and process innovation programs that would support Company new product introductions.

Cash Dividend Increased; Common Stock Split

Reflecting the Company's strong performance were two developments acted upon during the year which were of specific interest to stockholders.

On February 15, 1987, the new quarterly rate of \$.075 per share (\$.30 per year), when adjusted for the two-for-one stock split, became effective and was paid to stockholders of record as of January 24, 1987. This represented the 21st consecutive annual increase in the common stock dividend. In addition, it extended to 59 years, or 236 consecutive quarters, the corporation's record of uninterrupted dividend payments which ranks among the top two percent of companies listed on the American Stock Exchange.

Total dividends accrued and paid in 1987 amounted to \$11,527,000, compared to \$10,759,000 the prior year, for an increase of \$768,000.

Another major action was the two-for-one split of the Company's common stock which became effective June 1, 1987. The additional shares were distributed to stockholders of record April 18, 1987. The number of authorized shares of common stock was increased to 100,000,000 with the par value per share reduced from \$.4688 to \$.2344.

This was the Company's second two-for-one stock split in less than two years, the previous split occurring September 3, 1985. Since 1960, Hormel common stock has split six times on a two-for-one basis. This means that every share owned 27 years ago now equals 64 shares.

Pension Trusts

The Company's provision for current and past services for Employee Pension Trusts was \$2,697,000, compared to \$2,381,000 in fiscal 1986. In 1986, the Company elected early adoption of FASB Statement No. 87, Employers' Accounting for Pensions.

Labor Relations

Fiscal 1987 was a period of labor stability for Geo. A. Hormel & Company. Although there were no major labor contracts which expired during the year, the Company continued its policy of meeting with various groups of employees to exchange views and information so that each can better help the other reach stated objectives.

Hormel is committed to being a quality employer and provides many benefits and opportunities that are designed to enhance the quality of life for its employees. As costs for benefits escalate, especially for health care, the Company is enlisting the cooperation of employees and retirees in seeking ways to control costs without diminishing the quality of services provided. New changes are helping employees become more involved in making sound health care decisions. In addition, the Company has instituted programs to reduce costs by promoting good health and making administration and design of benefits more cost effective.

Quality Improvement Process

Geo. A. Hormel & Company believes that quality is the fundamental ingredient which has contributed to its successful performance for nearly 100 years. In order to demonstrate the Company's commitment to quality, a comprehensive concept, called the Quality Improvement Process (QIP), was introduced in fiscal 1986.

The two-for-one stock split which became effective June 1, 1987, was the Company's second split in less than two years. Since 1960, Hormel common stock has split six times on a two-for-one basis. This means that every share owned 27 years ago now equals 64 shares.

Page 6: The Company's quality policy and the four absolutes of quality management are displayed by Lowell J. Linderman, corporate quality improvement process (QIP) coordinator.

The QIP has been introduced at 24 locations, including the Corporate Offices, every Company plant facility and seven sales regions. Virtually every full-time and part-time Company employee has been exposed to this massive educational program.

During the year, a quality policy was developed to complement the Company's Mission Statement. The policy reads, "We will supply defect-free products and services which conform to clearly defined requirements to meet the needs of our customers, employees and others we serve." The policy, Mission Statement and the Four Absolutes of Quality Management are publicly displayed at all Company locations.

A QIP orientation program was implemented during the year for all newly hired Company employees. This served to ensure that no one would be omitted from having quality become part of the regular experience of working for this Company. In addition, a Continuing Quality Education Program, introduced late in the calendar year to employees who had previously received training, provided meaningful follow-up to the original 14-step quality process.

Also in 1987, a Supplier Quality Management (SQM) system was initiated whereby partnerships were established with suppliers who share the same commitment to quality. Supplier Days were held to encourage those doing business with the Company to join in the continuing quest for quality improvement. The SQM committee is developing specific requirements suppliers must adhere to when providing the Company with goods and/or services. A computerized management information system will aid in evaluating and monitoring the quality of all outside purchases.

Through QIP and the Error Cause Removal (ECR) step, over 1,000 employee suggestions were brought to management's attention for corrective action. This illustrates the desire and willingness Company employees have to work together to eliminate common problems and make the QIP a success.


Hormel
Ham Slices
WITH NATURAL JUICES
cure 81 Ham Slice
WAFER SLICED
36773

A Look at Operations

Competition in the U.S. food industry has never been more intense. The Operations Group addressed this crucial challenge during fiscal 1987 by undertaking a comprehensive program that encouraged cost containment, operating competitiveness and improved efficiencies.

The objective was to reduce significantly costs and overhead expenses, consolidating some operations and divesting those which were not meeting performance targets. In this regard, the Company moved forward with plans to reduce dependence on the pork slaughtering portion of its meat processing operation.

At the same time, benefiting from the most modern and unequaled facilities anywhere in the industry, attention was given to introducing leading-edge technology and process improvements aimed at enhancing the Company's reputation as a producer of products that are consumer marketing sensitive. The development of new technologies for **Top Shelf** entrees and **New Traditions** breakfast and dinner meats made possible these exciting new products and their first-of-a-kind processes.

Paramount with the above objectives were the continued aggressive pursuit of superior quality products and a separate determination to improve employee safety.

The search for new and better ways to attain quality improvement was ongoing and evident at almost every step of production. The Quality Improvement Process (QIP), introduced Companywide last year, provided the basis for total employee participation and the successes that are evolving.

Ottumwa (Iowa) Plant Closed

Early in the fiscal year, pork slaughtering and rendering operations were discontinued at the Company's Ottumwa (Iowa) plant. Record high prices, negative margins and overcapacity in slaughtering compelled the Company to seek other sources for raw materials needed in manufacturing operations.

Near the end of the fiscal year, the Ottumwa plant was permanently closed and leased with an option to purchase to the Excel Corporation. Sufficient raw material supplies at competitive prices which meet strict Company specifications are obtained from outside sources.

Pork slaughtering at the Austin (Minn.) plant was discontinued earlier this month. Consideration is being given to the elimination of slaughter operations at the Fremont (Neb.) plant. A final decision is expected during the current fiscal year. These moves facilitate the Company's transformation from an old-line packinghouse with slaughtering and fresh pork operations to a processor of value-added packaged and frozen consumer foods.

Innovation in Packaging

Reminiscent of the Company's successful introduction in 1926 of America's first canned ham was the development this past year of an entirely new category of prepared foods — the unfrozen microwave entree. Four years of extensive research, testing and capital investment measured in millions of dollars were required before Hormel, in a joint development project with Continental Can Co., brought into the market the nation's first shelf-stable, microwaveable plastic container. The cooperative effort between the two companies brought to the forefront the packaging technology expertise of Continental Can Co. and the vast production experience of Hormel.

Benefiting from the most modern and unequaled facilities anywhere in the industry, attention was given to introducing leading-edge technology and process improvements. The continued aggressive pursuit of superior quality products and a separate determination to improve employee safety were also evident.

Page 8: In Dallas, Texas, Miguel Salazar works on the vacuum packaging of Cure 81® ham slices, a product introduced last year in regional test markets.

This revolutionary breakthrough in packaging led to the introduction of **Top Shelf** entrees, a 10-item variety of premium beef, fish and chicken products that stay fresh without refrigeration for 18 months or more and can be prepared in the microwave in two minutes or less. Each entree is vacuum-packed in a multi-layered plastic serving dish that provides a barrier to moisture and oxygen. The trays are sealed with a semirigid, airtight plastic lid. A unique thermo-processing technique precooks and sterilizes the product inside which ensures complete freshness upon opening and helps retain the natural flavors of the food.

From conception to reality, both the package and the process represent important advances in technology. The disciplines of plastics, food know-how, quality control, machine development and packaging machinery became part of a "total systems" approach that received strict attention through every stage of development.

A second packaging concept made its debut with the introduction of an eight-item line of Special Occasion Entrees. Packed in a C-PET tray, this unique dual ovenable container allows foodservice and in-store deli operators the advantage of selecting from a variety of food preparation methods the one that best fits their needs. The options available through use of the C-PET tray include microwave, convection oven or steam table. This appealing factor provides operators with additional convenience and flexibility at point of sale. New equipment adapted to handle C-PET tray production was installed early in the year at the Oklahoma City (Okla.) foodservice plant.

In Austin, the start up of a new line for packaging **Little Sizzlers** pork sausage patties in tri-seal, tamper-evident cartons is progressing. This new package provides consumers with an extra margin of confidence in the freshness and wholesomeness of the product. Similar cartons are also being used in the packaging of other **Little Sizzlers** pork sausage items.

Advanced equipment for the vacuum packaging of **Cure 81** ham slices and **Hormel** smoked pork chops was in-


LOWER SALT
Black Label


BURT
Dinty Moore


Hormel

stalled at the Dallas (Texas) meat products plant. In Atlanta, Ga., Beloit, Wis., and Stockton, Calif., new high-speed lines were set up for the packaging of shrink-wrapped multipacks of selected grocery and meat products items in one-half or full case lots.

New Technology and Equipment

The excellent performance of automated ham deboning machines in Austin and Fremont, Neb., spurred the installation of a similar unit at the Company's Dold Foods, Inc., plant in Wichita, Kan. This technologically advanced operation improves lean meat yield, assures uniformity in the resulting meat product and boosts overall quality and tonnage output.

Improved equipment for controlling the temperature and humidity of dry sausage drying rooms was also installed in Algona. In addition to providing important energy savings, the changeover will enhance product quality and consistency. Automatic pepperoni casing equipment, added to the Algona and Knoxville (Iowa) dry sausage plants, replaces what was traditionally a manual operation. This has led to improved labor efficiencies.

During the year, new processes were perfected for the production at the Dold Foods plant of lower salt **Black Label** bacon. The continued emphasis on reduced salt products necessitates the introduction of new technology that will ensure proper curing and cooking of the product despite the use of less sodium chloride in the formulation.

Another bacon product, **Fast'N Easy** precooked round bacon, has gained widespread popularity with foodservice operators. Atlanta operations have been expanded to allow for increased production capacity. Prosciutto ham production in Ottumwa has been consolidated at the Austin plant.

Renovation at the Stockton grocery products plant continued in 1987 with the addition of new meat blending and batching equipment designed to improve the efficiency of canned meat production.

In addition to the installation of advanced equipment and processes, steps were taken during the year to analyze and solve delays which occur during manufacturing as a result of mechanical breakdown. This led to the creation of a troubleshooting program developed by corporate and plant engineering specialists. This comprehensive program begins with a review of the delay history for specific pieces of equipment. Once the problem has been diagnosed, revisions may be made in any number of areas, including setup procedures, operator training, appropriate sanitation techniques and proper preventive maintenance. By recording and comparing the effectiveness of operations both within and among Company plant facilities, procedural changes can be implemented and realistic goals for production efficiencies and economies set.

Emphasis on Safety

A total commitment from all employees — production and management alike — and a strong desire to enhance safe working conditions Companywide resulted in a safety performance record that was the best ever.

Two plants — the Fort Worth (Texas) frozen foods plant and the Honolulu (Hawaii) distribution center — completed the year without a single lost-time injury. One of the most notable achievements occurred in Fort Worth where employees celebrated their four-year anniversary without a lost-time injury. This record breaking success story is unmatched in Company history. An impressive milestone was also set at the Beloit (Wis.) grocery products plant where the lost-time injury ratio was approximately 1.5 per 100 employees.

A total commitment from all employees — production and management alike — and a strong desire to enhance safe working conditions Companywide resulted in a safety performance record that was the best ever.

Page 10: (Top row), Linda D. Scobee, Wichita, Kan., and Danette F. Murdoch and Stanley N. O'Hara, Oklahoma City, Okla. (Bottom row), Matthew Carpenter, Atlanta, Ga., and Kim Dzwonkowski, Austin, Minn.

The Company's Austin plant continued its excellent safety performance in fiscal 1987 with a record of only 4.3 lost-time injuries per 100 employees. This contrasts favorably to the national average of 15.1 lost-time injuries recorded by the entire U.S. meatpacking industry.

A safety matter of the highest priority to the Company is the elimination of cumulative trauma-type injuries such as back strains, tendinitis and carpal tunnel syndrome. Caused by repetitive, twisting motions, these troublesome injuries are not easily detected or prevented because they develop slowly. Advances have been made, however, as a result of employee cooperation and the development of new ergonomics techniques designed to improve health, safety and comfort.

For plant managers, plant and industrial engineers and safety managers, ergonomics emphasis during the year concentrated on the evaluation and design of facilities, equipment, tools, work stations and jobs that are compatible with human capabilities. Dr. Thomas Armstrong, associate professor of industrial health, physiology and engineering at the University of Michigan and a foremost authority on ergonomics in the workplace, contributed to the development of the Company's ergonomics program.

Extensive projects now in progress Companywide center around the study of the many complex relationships that exist among people, tools, machines, job demands and work methods. The effects of repetition, force, posture and vibration on employees are being explored.

Safety committees continue to be active in each Company facility. Comprised of both management and production personnel, the committees provide an avenue for better communication, cooperation and understanding of total safety goals. Safety incentive programs also proved valuable in enhancing safe work habits.

A new addition to the Company's safety training program was the development of a library of videotapes used to train new employees and reeducate experienced workers regarding on-the-job safety. Specific information regarding correct use of ladders, hearing and eye care, machine lockout procedures and proper supervision techniques is covered.


Hormel
MODERN FEED
TASTEE GROW

Refineries, Feed, Pork Divisions

In the Refineries Division, continued aggressive capital investments for new equipment and improvements to existing facilities resulted in continuing productivity gains. These efficiencies contributed to the improved quality of byproducts derived from Company slaughtering and processing operations.

Shortly before the discontinuance of pork slaughtering and rendering at the Ottumwa (Iowa) plant, a state-of-the-art meat recovery operation was transferred to the Company's Austin (Minn.) plant. Although fully operational, work continues to perfect equipment and techniques which will ensure production of mechanically separated meat that meets the rigid standards set by the U.S. Department of Agriculture (USDA) for domestic sale. Currently, mechanically separated meat, a major ingredient in sausage manufacturing, is exported to foreign markets.

The continued popularity of pigskin leather, combined with a shortage of available cowhides, resulted in stronger demand by tanners for pigskins. With the closing of slaughtering operations at the Austin plant, pigskins will be obtained from non-Hormel sources to continue to meet the demand. Hormel pigskins are used primarily in the production of garment leather and are sold largely to overseas markets.

The Spice Department, under the direction of the Refineries Division, plays an important role in the manufacture of Hormel products. Company flavoring experts purchase only the purest, highest-quality raw spices and seasonings from a carefully screened group of worldwide vendors.

Feed Division

A moderate expansion of the nation's swine breeding herd, flexibility derived from improved products and services, an experienced sales staff and ongoing research programs combined to fuel additional growth for the Hormel Feed Division. As has been the pattern, sales tonnage again increased from year-earlier levels with an eight percent improvement reported in 1987.

Early in the year, **Basepac** turkey starter and grower base mixes and **Hormel** 28 percent turkey prestarter and **Hormel** 27 percent turkey starter were added to existing lines of Hormel poultry feed products. These are the first feed supplements developed by Hormel specifically for turkey growers.

Later in the year, a new line of feeds, under the **Enpac** brand name, was introduced to fill the special needs of early weaned pigs. Pork producers now wean pigs as young as two and three weeks in order to optimize productivity of the sow herd and maximize facility use. **Enpac** tastee creep, **Enpac** tastee wean, **Enpac** tastee start and **Enpac** tastee grow provide the young pigs with the extra protein and energy needed to prevent early weaning setbacks and achieve desired levels of weight gain.

Surepac 39 percent G & L feed supplement was reformulated to provide pork producers with additional flexibility. The updated supplement contains higher protein and mineral content and is readily adaptable for use in any sow diet.

New sow gestation and lactation packs were introduced to feed dealers at midyear. The nutrient-dense packs offer important vitamins and minerals such as biotin and choline in easy-to-use 50-pound bags.

Record high raw material costs continued during much of fiscal 1987 as pork supplies remained lower than expected throughout the first three quarters of the year. . .Pork production is expected to increase throughout fiscal 1988, resulting in lower raw material costs.

Page 12: (Top left), William O. Bell and Steven M. Mauseth. (Bottom left), Darrell Dybevik, William Rinehart and Francis J. Gostonczik. Pigskins for garments and accessory items continue to increase in popularity.

Pork Division

Record high raw material costs continued during much of fiscal 1987 as pork supplies remained lower than expected throughout the first three quarters of the year. Some relief was realized in the concluding quarter as producers responded favorably to high returns and low production costs.

USDA surveys taken during fiscal 1987's first quarter reported the smallest number of pork supplies on U.S. farms in 11 years. The nation's breeding herd was the smallest since estimates were first made in 1963 and pork supplies coming to market were three percent lower than the same period in 1986 and six percent below 1985 figures.

For the first six months of fiscal 1987, slaughter numbers remained three percent below comparable 1986 levels as many producers retained gilts to increase their breeding herds. Mild winter weather throughout much of the Midwest also helped save newborn litters, thereby increasing the supplies available for market later in the year. In addition, pork prices were buoyed by processors who replenished depleted cold storage supplies and by an eight percent decline in beef production.

Into the third quarter, pork prices remained at $7 per hundredweight over 1986 levels. At an average of nearly $60 per hundredweight, the price of raw materials was among the highest on record. These costs continued into the fourth quarter at which time slowly increasing pork supplies, combined with a 10 percent rise in poultry production and high frozen turkey inventories, exerted a downward pressure that resulted in lower prices. Slaughter numbers at year-end were three percent higher than the previous same period in 1986.

Based on surveys of pigs born after June 1987, the pork supplies available for market in the 1988 first quarter are expected to be nearly seven percent greater than the same period one year ago. Pork production should continue to increase throughout 1988, resulting in lower raw material costs.


Hormel
cure 81
REGISTERED GUARANTEED SATISFACTION
106469 B
KEEP
REFRIGERATED

Meat Products Division

Contending with some of the highest raw material costs ever encountered in the food industry, the Meat Products Division recorded volume and sales gains in a number of major product categories.

In fiscal 1987, continued emphasis was placed on the transition from commodity-based products to additional further-processed, value-enhanced items. Constantly changing consumer lifestyles, coupled with a demand for quick, easy to prepare microwave-ready products, resulted in the unveiling of many new introductions and the reexamination of long-established brands.

Increased expenditures for marketing and advertising helped support the launching of these new items and strengthened the brand identity and market share of existing popular products. Responsive to product, packaging and marketing innovations, the Meat Products Division is enjoying an era of sustained high growth. As a result, the prospects for the short and long term continue to be bright.

Twenty-Five Years Strong

One of the Meat Products Division's most valuable assets — the **Cure 81** trademark — and the premium ham which carries this trusted name is celebrating its 25th anniversary in 1988. **Cure 81** ham created the boneless ham market with its introduction in 1963. It is recognized today as the premier ham in its category. It is the best-selling, best-quality brand and enjoys an enviable image as America's overwhelming first choice.

Record high expenditures for advertising and sales promotion of **Cure 81** ham centered around two major programs held during the Christmas and Easter holiday seasons. For Christmas 1986, **Cure 81** ham was featured in a colorful four-page advertisement that brought together four well-known food partners — **Hormel** deli meats, *Del Monte* fresh pineapple, *Del Monte* natural raisins and *Land O' Lakes* cheese. Seven magazines having a combined circulation of 52 million dramatized **Cure 81** ham as a festive, dependable product for holiday gatherings. A 30-second television commercial premiering prior to the Easter holiday appeared on six prime time network shows which reached 106 million households.

The historic popularity of **Cure 81** ham led to the introduction in 1987 of a line extension — **Cure 81** ham slices. Considered a natural addition to the parent item, initial consumer acceptance in three test regions underscores the excellent growth potential visualized for this new product concept.

Cure 81 ham slices is available in three versatile varieties — wafer, regular and thick slices. This feature provides the proper ham thickness for sandwiches, main dinner entrees, snacks and hors d'oeuvre items. It is an attractive alternative for small families and singles who appreciate the lower cost and the convenience of fewer portions.

New Lower Salt Variety

Showing a continuing sensitivity to the needs of health-conscious consumers, the Meat Products Division introduced into national distribution a lower salt variety of **Black Label** bacon.

The Meat Products Division recorded volume and sales gains in a number of major product categories. . . Product, packaging and marketing innovations have contributed to an era of sustained high growth.

Page 14: This premium ham product is celebrating its 25th anniversary in 1988. It is recognized today as the premier ham in its category.

The new version contains 35 percent less salt than regular bacon. It offers the same excellent smoked flavor as its forerunner, original **Black Label** bacon, a product millions of consumers have trusted for more than three decades. In surpassing initial sales expectations, lower salt **Black Label** bacon has already demonstrated exceptional promise.

Black Label bacon mesquite flavor, the first addition to this highly regarded line, is now in its second year in the marketplace. The substantial sales gains recorded in 1987 reflect consumers' growing demand for mesquite flavored specialties. Sales of all **Black Label** bacon products increased from year-earlier levels.

Pork Sausage Line Expanded

An addition to the **Little Sizzlers** pork sausage line, one of the most successful in the breakfast meats category of the food industry, made its market debut in July. The newcomer, **Little Sizzlers** pork sausage patties, has the same delicious blend of zesty natural seasonings that made famous the renowned links variety introduced nearly 30 years ago.

Excellent distribution has been obtained in selected test market regions. On the strength of early consumer and trade interest, **Little Sizzlers** pork sausage patties is being expanded into additional markets in 1988 as greater production capacities become available.

Hot & spicy **Little Sizzlers** pork sausage links, introduced nationally less than two years ago, continues to gain consumer acceptance. Combined with the performance of the traditional item in the line, **Little Sizzlers** pork sausage links, sales volume increased in 1987 to sustain a successful four-year trend of increased sales.

Retail Dry Sausage Products

The Meat Products Division's preeminence as one of the nation's top marketers of presliced and chunk pepperoni products was heightened in fiscal 1987 with the introduction of retail-size **Pillow Pack** pepperoni. The major point of difference is that this pepperoni is loosely packed in an eight-ounce pouch, providing consumers with maximum convenience in removing the product.

Additional prepackaged retail **Hormel** pepperoni items contributed significantly to overall sales results. Two varie-

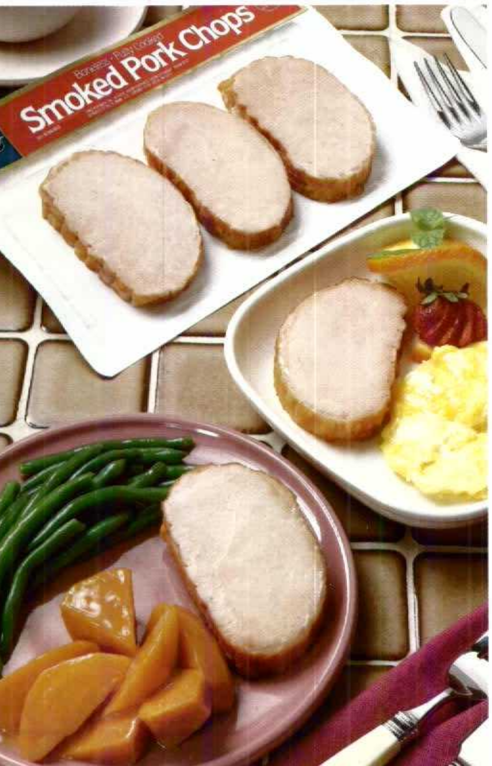

LOWER SALT
Hormel
Black Label
BACON
NET WT. 16 OZ. (1 LB.) 454g

Summer Sausage
Mesquite flavor
Summer Sausage
Old Smokehouse
Summer Sausage
Hormel
Beef
Summer Sausage

Hormel
Pepperoni
GIANT SLICE
ITALIAN
Pepperoni

Hormel
Little Sizzlers
PORK SAUSAGE PATTIES
6 PATTIES
NET WT. 10 OZ. (284g)
Little Sizzlers
PORK SAUSAGE

Light & Lean
Boneless Ham Slices
Hormel
Light & Le


Smoked Pork Chops

Cure 81 Ham Slices
Hormel
Cure 81 Ham S
CURE 81

PRIMA FESTA
Hormel
Hard Salami
Genoa
Rosa Grande Pepperoni
Your Prima Festa Salami Gift Box Includes:
PRIMA FESTA
FROM
Hormel

ties completing their first year of national sales, **Hormel** hot & spicy pepperoni and **Hormel** giant slice pepperoni, fared very well and showed promise of being strong volume performers.

Included in the high level of new product activity that characterized fiscal 1987 was the national introduction in February of a four-item line of sausage chubs.

Hormel beef summer sausage, **Hormel** summer sausage, **Hormel** mesquite flavor summer sausage and **Old Smokehouse** summer sausage are consumer-sized products sold shelf stable outside of the meat case. This is an attractive feature as it allows retailers to display mixed varieties of the product in nonrefrigerated aisle space anywhere in the grocery store.

The new sausage chubs are also marketed in special food gift packages for retail sale during the holiday season. Each gift box contains six tasteful selections — **Hormel** mesquite flavor summer sausage, **Old Smokehouse** summer sausage and two packages each of **Hormel** beef summer sausage and **Hormel** summer sausage. The attractive carton is fitting for immediate gift exchange and requires little additional handling since no refrigeration is needed.

Two additional choices in the Company's expanded offering of holiday gift boxes continue to perform well. The nationally distributed **Prima Festa** gift box is a special favorite. Included is a flavorful three-item assortment of Mini **Di Lusso** genoa, **Rosa Grande** pepperoni and **Homeland** hard salami. Sales of this popular gift box continue to keep pace with the growing consumer demand for gourmet ethnic foods.

Favorable sales results were also recorded for the one-pound **Old Smokehouse** beef sausage chub which is marketed in an attractive wood grain carton decorated in a holiday motif.

Prepackaged Boneless Pork

The development of a unique line of prepackaged, fresh boneless pork products continued to receive major emphasis. Introduced in fiscal 1987 was a fully cooked boneless smoked pork chop sold retail in convenient tray-pack form. This versatile new item has earned considerable consumer acceptance in the few months it has been available.

Other products in the Company's consumer-packed boneless pork program, introduced in late 1985, include **Hormel** pork tenderloin; **Hormel** pork rib chops; **Hormel** center cut pork roast; **Hormel** thick cut pork chops; **Hormel** wafer cut pork chops, and **Hormel** pork loin chops.

Meeting New Consumer Needs

Interest in staying fit gains new momentum each year as consumers search the meat case for products that satisfy their nutritional and dietary needs. **Light & Lean** luncheon meats and **Light & Lean** ham are two relatively new product concepts developed with today's modern consumer in mind.

Early in the year, a 98 percent fat-free **Light & Lean** imported ham was introduced nationally as a proper fit complementing the Company's existing group of nutritious, lean luncheon meats. The new addition, like its predecessor items in the line, offers calorie-control, reduced-fat benefits without taking away needed protein, taste and flavor.

Membership Stores

One of the fastest growing trends in America today is the popularity of membership warehouse stores, a concept that allows consumers to obtain lower retail prices through large volume purchases. Five Hormel products, designed especially for warehouse-type stores, were introduced in 1987, raising to 20 the number of items now offered.

Changing consumer lifestyles resulted in the unveiling of many new product introductions and the reexamination of long-established brands.

Page 16: Many new product introductions joined a strong group of consumer favorites marketed through the Meat Products Division.

The new additions are **San Remo Brand** genoa, two **Hormel** cooked ham products and two varieties of **Hormel** spare ribs. **Black Label** bacon became available in an attractive three-pound carton which provided consumers with a choice between this new package size and the shingled variety earlier introduced in a clear plastic film.

Sales successes by **Wranglers** smoked franks, **Hormel** big franks, **Little Sizzlers** pork sausage and **Hormel** pepperoni contributed to the growth with membership stores.

Convenience Stores

The fastest growing retail segment in the U.S. today, recording sales of $61.6 billion annually, is the convenience store industry. Convenience stores have multiplied dramatically in eight years, increasing from 18,000 units in 1979 to 76,000 in 1987. By the year 2000, the total number is expected to reach 110,000.

In order to serve this rapidly expanding, challenging area and become a major entity in the business, Hormel established a comprehensive **Total Convenience** program. One of the first programs in the industry geared to convenience stores, the all-encompassing concept addresses a variety of needs — product selection, package sizes, marketing and merchandising requirements — unique to this market group.

Under the new program, a diverse number of products associated with the Meat Products and Prepared Foods Groups of the Company, including meat and grocery products, foodservice, deli and frozen foods, are combined and offered to convenience stores as one inclusive line. Traditional favorites such as **Short Orders** individual canned servings, **Light & Lean** luncheon meats and several long-established deli, bacon, sausage and canned meat items are marketed to convenience stores. Complementing this group are numerous new products, including **New Traditions** hamburgers, **New Traditions** breakfast meats and sandwiches, **Breakfast Combos** bars, **Breakfast Combos** links and **Hormel** meat snacks.

Hormel
Corned Beef Round
Hormel
Pastrami Beef Round
Hormel
Peppered Beef Round

Hormel
Beef Roast
Hormel
Beef Roast
Hormel
Beef Roast

Hormel
Hickory Smoked
Turkey Breast
Hormel
Turkey Breast
Hormel
Turkey Breast
Hormel
Turkey Breast
SKINLESS

Hormel
Cooked
Ham
Hormel
Spiced Ham
Hormel
Prosciutto
Hormel
Hickory Smoked
Turkey Breast
OVEN ROASTED • BONELESS
Hard Salami
Pepperoni

Deli Division

Of today's supermarket hot spots, few are burning as brightly as the delicatessen where annual sales approach $6 billion to represent about 3.8 percent of total food store expenditures. An estimated 60 percent of all supermarkets have a service deli. Another 25 percent have a self-service deli and thousands more independently owned delis can be found coast to coast.

Fiscal 1987 was a banner year for the Company's Deli Division, highlighted by strong sales gains in several product categories, the introduction of many new upscale deli items and appealing marketing programs that produced excellent responses from retailers and consumers. With a nationally distributed selection of products, now totaling over 175, the Hormel Deli Division is extending its image as one of the premier deli marketers in the industry.

New Turkey Products

The Company unveiled more than one dozen distinctive new deli products in 1987. Included were expanded lines of sandwich meats, turkey, beef and ham, which form the backbone of deli departments, and a convenient new group of popular pizza toppings.

The continuing consumer trend for leaner meats led to the introduction of additional turkey products. A 98 percent fat-free skinless turkey breast and two uniquely flavored products, **Hormel** hickory smoked turkey ham and **Hormel** hickory smoked turkey pastrami, both 95 percent fat free, were marketed nationally by fiscal year-end.

These three new varieties, together with four turkey products introduced in 1986, give the Deli Division one of the most complete lines in the industry. Surpassing expectations in their first year and continuing to do well are **Hormel** 99 percent fat-free skinless turkey breast; **Hormel** skin-on turkey breast; **Hormel** mesquite smoked turkey breast, and **Hormel** hickory smoked turkey breast, all 96 percent fat free. The mesquite smoked and hickory smoked varieties were the first of their kind to be marketed by a national deli supplier.

Cooked Beef Products

The introduction of four full-muscle precooked beef products provided deli shoppers with expanded choices. **Hormel** top round roast beef; **Hormel** corned beef round; **Hormel** pastrami beef round, and **Hormel** peppered beef round brought new momentum to the Company's existing line.

They join a variety of successful beef specialties; most notably, a line of 97 percent fat-free items comprised of **Hormel** roast beef, **Hormel** Italian beef, **Hormel** corned beef and **Hormel** pastrami, and three 94 percent fat-free roast beef, corned beef and pastrami selections.

Renowned for the manufacture of premium ham products, Hormel introduced two new low salt items and two distinctively seasoned additions. The two reduced salt varieties contain 25 percent less salt than most regularly marketed hams. The specially flavored ham products, **Hormel** honey ham and **Hormel** mesquite flavored ham, are innovative new offerings of superior quality and value.

Strong sales gains in several product categories, the introduction of many new upscale deli items and appealing marketing programs that produced excellent results provided the Deli Division with a banner year.

Page 18: More than one dozen distinctive new deli products were introduced in 1987. Other traditional product categories showed strong sales and unit volume growth.

Meat Toppings

Along with the spectacular rise in the number of service and self-service delis in the U.S. has been a corresponding trend to broaden the product selection beyond traditional sausage items and sandwich meats. Two very popular additions, fresh or frozen pizzas and gourmet salads, have enabled the Deli Division to extend market distribution of the Company's diversified line of meat toppings.

Marketed to delicatessens as The Performance Toppings, the seven-item line consists of pepperoni, ham, sausage, Italian sausage, bacon, Canadian bacon and beef varieties. A choice of bacon, pepperoni and ham is distributed as salad toppings.

Traditional Products

The cornerstone products of the Deli Division constitute some of the most prominent brands in the industry. **Di Lusso** genoa; **Homeland** hard salami; **Hormel** deli-style cooked ham, and the complete family of famous pepperoni products, **Hormel** pepperoni, **Leoni Brand** pepperoni, **Leoni Grande** pepperoni, **Rosa Grande** pepperoni, **Rosa** pepperoni and **Pillow Pack** pepperoni, are some of the best-known, best-selling items in the deli case today.

Many of these traditional product categories showed strong sales and unit volume growth in 1987. **Pillow Pack** pepperoni, in particular, posted an outstanding year with sales improving more than 10 percent over 1986 levels. Impressive results produced by the Deli Division's versatile turkey, beef and ham lines benefited from the many new product introductions made during the year. Frozen prepared entrees, another key category, ended the year with a significant 15 percent increase in sales volume.

Marketing Campaigns

The **Hormelicatessen** deli program, now in its second year, is a concept that has effectively unified all marketing, advertising and promotional programs. An important element was the development in 1986 of colorful new labels and packaging. This succeeded in creating a more vibrant and uniform appearance for the entire line while giving prominence to the Company's role as a full-line deli supplier.


Hormel
READY TO MICROWAVE
Macaroni & Beef
Salisbury Steak
Serves Nine
Macaroni & Cheese
Serves 6 to 8
Vegetable Lasagna
Stuffed Cabbage
Stuffed Peppers
Serves Six
Classic Beef Stew
Serves 6 to 8
Rosa Grande Lasagna
Serves 6 to 8


ichita / 1D
sotans eat / 1B
n Shanghai / 3A

Foodservice Division

In the very important away-from-home eating market, the Company's Foodservice Division recorded an outstanding year. The introduction of several new products and line extensions, the development of innovative packaging concepts, an expanded sales force and unique advertising and promotional support programs helped create new opportunities for growth. A traditionally successful Company business unit that caters specifically to mobile, on-the-go families, the Foodservice Division has established itself as a foremost supplier of away-from-home meals.

The near-record number of new products introduced during the year achieved positive trade and consumer response. Complementing energetic product line initiatives was an all-encompassing marketing program that was the most extensive in Company Foodservice Division history.

Page 20: The Foodservice Division broadened its presence in the important away-from-home eating market with the unveiling of several new products.

New Products Introduced

The near-record number of new products introduced during the year achieved positive trade and consumer response. One of the most important developments was the national distribution of an eight-item line of frozen prepared entrees. Marketed as Special Occasion Entrees in graphically appealing three-pound packages, the flavorful varieties are **Rosa Grande** lasagna with beef in sauce; **Rosa Grande** vegetable lasagna; **Hormel** classic beef stew; **Hormel** Salisbury steak in mushroom gravy; **Hormel** macaroni & cheese; **Hormel** macaroni & beef in tomato sauce; **Hormel** stuffed cabbage with beef in tomato sauce, and **Hormel** stuffed peppers with beef in tomato sauce.

Hormel Breakfast Combos links, following a successful market debut early in fiscal 1987, has begun its second year in national distribution. Available in two varieties — sausage, egg and cheese and ham, egg and cheese — **Breakfast Combos** links appeals to the revitalized interest by consumers of all ages for quick, nourishing breakfast foods.

Breakfast Combos links follows the successful debut one year earlier of **Hormel** breakfast bars and **Hormel Breakfast Pops** fritters. All are traditional breakfast favorites in new and innovative forms that are not only good tasting but high in nutrition and provide exceptional convenience.

Recognized throughout the foodservice industry for its preeminence as a manufacturer of a diversified line of high quality ham products, the Company's reputation was enhanced in 1987 with the addition of two new varieties. **Old Tyme** boneless buffet ham is a full-muscled ham, hardwood smoked and uniformly shaped for maximum slicing yield. Another newcomer, **Menumaster** boneless ham, is 93 percent fat free and offers a superior price/value quality that appeals strongly to foodservice distributors and chains.

The increased consumer awareness and appreciation for the role that lower sodium content plays in physical well-being led to the introduction last year of a new less salt/low sodium variety of **Layout Pack** wide-shingled bacon. The new variety has 35 percent less salt than regular **Layout Pack** wide-shingled bacon but retains the excellent flavor and uniformity associated with its famous counterpart.

The Foodservice Division also broadened its presence in the rapidly growing pizza industry with the introduction of an innovative group of products called The Performance Toppings. Seven of America's most popular meat pizza toppings — pepperoni, beef, sausage, Italian sausage, Canadian bacon, ham and bacon — are sold in a variety of forms, sliced, diced, stick, crumbled or chunk, to pizzerias nationwide. Many of these same products have proven to be very popular as salad toppings and can be found in the many restaurants that have added salad bars as an eating alternative for health-conscious consumers.

Old Favorites

Providing strength and stability to the new market introductions are the many items that form the backbone of the Foodservice Division's product lineup. **Cure 81** ham, **Layout Pack** wide-shingled bacon, **Fast'N Easy** bacon, **Rosa** pepperoni, **Rosa Grande** lasagna and **Di Lusso** genoa are cornerstone, formidable brands that are among the most recognized and widely respected in the industry. Each of these premium core brands and the diversified families of products they represent enjoyed wider distribution and improved performance in 1987.

Sales and Marketing

These energetic product line initiatives and the resultant sales volume growth and market distribution reflect favorably upon total Foodservice Division operations since its reorganization in 1979. The sales force, which has more than doubled during the past five years, is able to respond quickly to the product line and distribution needs of foodservice customers.

Complementing the sales effort was an all-encompassing marketing program implemented in 1987 that was not only the most extensive ever in Foodservice Division history but also one of the largest introduced during the year by industry companies. Featuring a series of six multi-page, full-color gatefolds, the unique nonstop campaign highlighted major product groupings — hams, bacon, breakfast sausages, prepared frozen entrees and meat pizza toppings, plus a full-line advertisement that tied together the complete array of quality meats and specialty products.

Participation in national and regional food shows and local distributor shows is another area in which the Foodservice Division applied its marketing skills in 1987. An expanded exhibit at the world-renowned National Restaurant Show in Chicago, Ill., attracted more than 100,000 key buyers and helped the Company gain increased exposure of its growing foodservice product line.


NEW TRADITIONS
CATFISH FILLETS
FULLY COOKED READY TO MICROWAVE
2 PORTIONS
KEEP FROZEN
Hormel
NEW TRADITIONS
BONELESS PORK CHOPS
FULLY COOKED READY TO MICROWAVE
Hormel
NEW TRADITIONS
BONELESS CHICKEN BREASTS
Hormel
2 PORTIONS
KEEP FROZEN


NEW TRADITIONS
HAMBURGERS
NEW TRADITIONS
CHEESEBURGERS
NEW TRADITIONS
BROILED & BROWNED
NEW TRADITIONS
BROILED & BROWNED
NEW TRADITIONS
BROILED & BROWNED
NEW TRADITIONS
BROILED & BROWNED
NEW TRADITIONS
NEW TRADITIONS
BACON BISCUITS
NEW TRADITIONS
SAUSAGE BISCUITS
NEW TRADITIONS
NEW TRADITIONS
NEW TRADITIONS

Frozen Foods Division

Geo. A. Hormel & Company extended its significant industry presence and enhanced its stature as a national consumer products company with the formation in January 1987 of a Frozen Foods Division.

This participation in frozen foods is not new. Historically, numerous products have been marketed through both the Meat Products Group and Prepared Foods Group of the Company. Consolidation of these products into one major division not only places increased emphasis on an industry segment that is enjoying substantial growth but also provides important efficiencies in sales and marketing.

The Frozen Foods Division markets a diverse group of premium specialty products. Included in the growing product portfolio are **Gold'n Lite** breaded vegetables, cheeses, ham and chicken snacks; several **Hormel** corn dog favorites; Mexican-style burritos, enchiladas and desserts; **Farm Fresh** catfish fillets and **Catfish Bobbers** catfish snacks; eight varieties of Special Occasion Entrees, and the **New Traditions** line of dinner meats, breakfast meats, breakfast sandwiches, and hamburgers, cheeseburgers and bacon cheeseburgers.

Cornerstone Product Line

Providing the foundation for Frozen Foods Division growth is the promising **New Traditions** line. Introduced into the marketplace in 1985 with a single breakfast item, **New Traditions** skinless pork sausage links, the growth of this product category and the diversity of its offerings in only two years have been gratifying.

New Traditions hot'n spicy sausage links, **New Traditions** pork sausage patties and **New Traditions** ham patties were introduced during fiscal 1986. A line of breakfast sandwiches added last year offers consumers an at-home alternative to breakfast choices pioneered by fast-food restaurant chains. National rollout began in February of six microwave-ready breakfast items — Canadian bacon, egg and cheese biscuit; ham and egg biscuit; sausage biscuit; sausage and cheese biscuit; sausage and egg biscuit, and bacon and egg biscuit. The exceptional trade acceptance to this microwave-ready product line reflects Company successes in providing innovative and distinctive breakfast products to the fastest growing market segment of the frozen foods category.

Also carrying the **New Traditions** brand name are three dinner table entrees. The featured items are boneless, center cut pork chops; skinless, boneless breast of chicken, and fillet of catfish. Specifically designed for microwave use, the prebroiled and browned dinner meats are quality center-of-the-plate items for busy homemakers who find it difficult to manage the preparation of full family meals.

Also showing considerable promise for the future is a three-item extension of the **New Traditions** product line launched last summer amid excellent national press, trade and consumer acceptance. "A great quality product at a great price" is how the *Wall Street Journal* described the newly introduced **New Traditions** hamburgers, cheeseburgers and bacon cheeseburgers. "It's a simple idea that excites me," added the author of the article.

The new microwaveable products have also created excitement and enthusiasm at the retail level. With Americans consuming 34 billion hamburgers each year, an average of three every week for every man, woman and child in the U.S., grocers visualize a great opportunity to win back a sizable share of the business captured by fast-food restaurant chains.

Providing the foundation for Frozen Foods Division growth is a new line of microwave-ready breakfast meats, breakfast sandwiches, hamburgers and dinner meats, all of which have received exceptional trade acceptance.

Page 22: The Frozen Foods Division markets a diverse group of premium specialty products that satisfy any meal or snack time occasion.

Special Occasion Entrees

Eight traditional family favorites, marketed as Special Occasion Entrees, reported strong volume growth in their first year of distribution. Offered nationally by the Frozen Foods Division as well as the Company's Foodservice Division and Deli Division, the varieties of lasagna and vegetable lasagna, macaroni & cheese, macaroni & beef, Salisbury steak, beef stew, stuffed cabbage and stuffed peppers are sold under the **Rosa Grande** and **Hormel** brand names.

Snack Foods

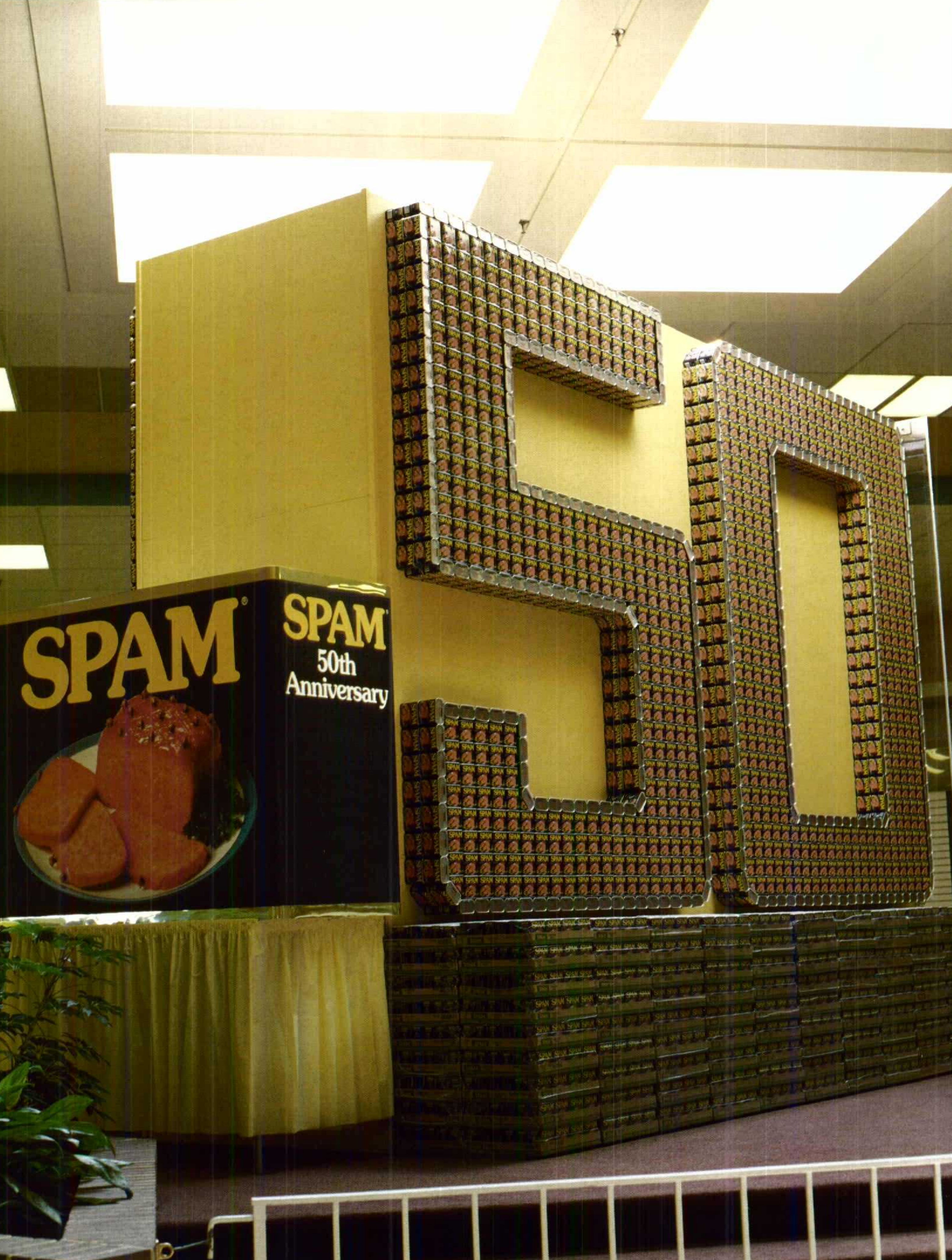
The increased popularity of snack foods is another area in which the Frozen Foods Division concentrated its energies in 1987.

Included in the Hormel line are eight breaded vegetable and cheese hors d'oeuvre items and three new finger foods, all marketed under the **Gold'n Lite** label. **Gold'n Lite** chicken bites, **Gold'n Lite** whole wheat chicken bites and **Gold'n Lite** ham & cheese bites were introduced last year. The variety of selected cheese products — Cheddar, nacho flavored and mozzarella — join a popular assortment of vegetable items, okra, sliced zucchini, mushrooms and cauliflower. **Gold'n Lite** onion rings, always a strong consumer favorite, completes the line.

Farm Fresh catfish fillets and **Catfish Bobbers** catfish snacks are in their second full year in the marketplace. Several new products are planned for the year ahead.

Single-Serve Products

Hormel corn dogs, **Hormel** burritos and **Hormel** enchiladas are available nationally as single-serve products. The three popular items are sold in supermarkets, in the sandwich-type section of convenience stores and through vending machines. These products meet the growing demand for good tasting, nutritious and quick lunch time fare.


SPAM
SPAM
50th
Anniversary

Grocery Products Division

The Grocery Products Division continues to emphasize balance between proven, traditional strategies and new, innovative approaches. Two events of the past year providing clear evidence of this focus were (1) The worldwide 50th anniversary of **SPAM** luncheon meat, the Company's all-American pioneer product, and (2) The major role grocery products shared in the selection of Hormel as "New Products Company of the Year" by *Prepared Foods* magazine.

Balance has been the key strategy followed throughout this decade by the Grocery Products Division. There has been balance between tradition and innovation and between stability and flexibility. The commitment to revitalize traditional products while responding to changes in consumer lifestyles and demands through the development of highly differentiated, high-quality new products has also required balance between effort and available resources.

While striving to achieve this balance, yet aware of the necessity of adapting to change and of identifying niches of opportunity, the Grocery Products Division has been able to capitalize on its considerable resources. These include some of the nation's best-known trademarks, extensive marketing capabilities, a fine distribution system and a heritage of excellence.

50 Years Young / 1937-87

On the occasion of its 50th birthday, **SPAM** luncheon meat generated more media attention than has been afforded most any food product in history. Newspapers and magazines provided full pages of coverage, many of which were accompanied by highly imaginative illustrations or colorful photography. *World News Tonight* on ABC devoted two and one-half minutes to a network editorial commemorating the world-famous product while *CBS Evening News*, *BBC* (British Broadcasting Company) and literally hundreds of other television and radio stations developed local programming features which took both a nostalgic and contemporary look at 50 years of **SPAM** luncheon meat.

As the Company celebrated with special promotions — contests, prizes, anniversary medallions and memorabilia — it also continued the emphasis on updating mature product lines, even those as successful as **SPAM** luncheon meat. Early in the year, a 7-oz. version of less salt/sodium **SPAM** luncheon meat entered the marketplace, following the national introduction in 1986 of a reduced salt/sodium variety in the familiar 12-oz. size.

In February, a contemporary, whimsical television commercial was introduced into Southwest and Southeast regional markets, two traditional **SPAM** luncheon meat strongholds. Using an animation process known as "claymation," sculpted claylike figures in various costumes — striped overalls, chef and top hats and punk rock garb — were used to illustrate the versatility, convenience and good taste attributes of **SPAM** luncheon meat.

A Landmark Product and Package

Described as the greatest commitment of talent and dollars and the most thoroughly researched and tested product in Company history, the introduction of **Top Shelf** entrees is as revolutionary in 1987 as was **SPAM** luncheon meat 50 years earlier. The landmark new product and packaging represent an entirely new food category — unfrozen deluxe entrees that are packaged shelf stable in microwaveable serving dishes.

The Grocery Products Division has some of the nation's best-known trademarks, extensive marketing capabilities, a fine distribution system and a heritage of excellence.

Page 24: The worldwide 50th anniversary of SPAM® luncheon meat was celebrated in 1987. This all-American pioneer product generated enormous media attention.

Created in cooperation with Continental Can Co., the advanced technology is apparent in the first-ever, multi-layered plastic container that allows fresh, delicious vegetables and meat, poultry and fish entrees to be packed inside the serving dish and then cooked to perfection. There are numerous other benefits:

- ★ **Top Shelf** entrees offer the same excellent quality as the best-known frozen prepared entrees;
- ★ No preservatives are used, yet the shelf life is 18 months;
- ★ Needing no refrigeration, homemakers can conveniently store the nonperishable items in cupboards rather than in a crowded freezer;
- ★ Preparation time in a microwave is two minutes or less. Comparable frozen entree products require eight to 15 minutes;
- ★ Four of the varieties contain less than 300 calories, and
- ★ **Top Shelf** entrees can be served in the same attractive container in which they are packaged and heated, eliminating time-consuming clean-up for busy homemakers.

Introduced in Indianapolis and Denver test markets in March, **Top Shelf** entrees were expanded to Phoenix/Tucson and Salt Lake City in September and Los Angeles, San Diego and Las Vegas in October. The 10-item line is a careful mixture of the exotic and the familiar. They offer the homemaker a meal packed with unusual seasonings and spices which would ordinarily be time consuming to prepare.

Now in the marketplace are glazed breast of chicken with skin-on potatoes and vegetables in wine sauce; spaghettini with meat sauce; chili con carne suprema; boneless beef ribs with barbecue sauce and skin-on potatoes; Italian-style lasagna with spicy Italian sausage and five cheeses; tender

NEW
TopShelf
2 Minute Entrees
Microwaveable
Ready to Serve
Vacuum Packed
No Preservatives
Spaghettini
With Meat Sauce
Breast of Chicken Acapulco
Boneless Beef Ribs
Tender Beef Roast
Lemon Fillet of Cod
With Country Rice
Linguini
With White Clam Sauce
Italian Style Lasagna
With Spicy Italian Sausage and Five Cheeses
Sweet and Sour Chicken
With Oriental Vegetables and Rice
Glazed Breast of Chicken
With Skin-on Potatoes and Vegetables in Wine Sauce
Hormel
NET WT.
10 OZS. (284g)

beef roast with potatoes and vegetables in Burgundy wine sauce; lemon fillet of cod with country rice; sweet and sour chicken with oriental vegetables and rice; breast of chicken Acapulco in cheese sauce with Spanish rice, and linguini with white clam sauce. Additions to this promising line are being developed in Hormel test kitchens.

Snack Foods Category

The introduction in January 1987 of six varieties of meat snacks has given Hormel and its Grocery Products Division the distinction of being the first major meat company to enter what is now recognized as the nation's fastest growing food category — the $400 million meat snacks business.

Six varieties of **Hormel** meat snacks made their market debut in 11 selected markets. This was followed six months later by expansion into four additional territories. The newly introduced line consists of four different meat sticks — **Hormel** beef sticks, **Hormel** salami sticks, **Hormel** pepperoni sticks and **Hormel** ham sticks — and two varieties of jerky — **Hormel** beef jerky and **Hormel** teriyaki beef jerky.

A major goal of grocery products marketing is to broaden the consumer base of meat snacks. Emphasis is being given to establishing a high visibility position in the snack food sections of major food chain supermarkets with the target audience being the primary grocery shopper, a woman 25 to 54 years of age.

Leadership Positions Reinforced

Hormel chili and **Hormel** tamales attained significant volume increases in fiscal 1987, outpacing the industry's growth rate and reaffirming best-selling leadership positions in their respective market categories.

In so doing, **Hormel** chili continued its steady four-year growth pattern by surpassing its previous high set in 1986 by four percent. **Hormel** tamales enjoyed a double-digit growth year in tonnage, earning its highest market share ever and strengthening its strong leadership image.

Hormel chunky chili and **Hormel** chili with beans (less salt), introduced nationally two years ago, attained expanded distribution and helped extend the Company's solid position in the canned chili category.

Hormel jumbo tamales, an item introduced late in 1985, has captured a widespread consumer following that continues on the upswing. Sales volume of this two-year-old product increased 15 percent in 1987.

New Marketing Strategy

In 1987, the Grocery Products Division altered its marketing strategy to capitalize on a little-known fact about one of its best-known products — **Dinty Moore** beef stew. Recognized as one of the Company's most celebrated, tradition-rich food products, **Dinty Moore** beef stew observed its 50th anniversary one year ago — a historic accomplishment that attests to the high image and loyalty this brand continues to enjoy.

Entertaining network television commercials and Sunday supplement inserts with cents-off coupons began appearing in mid-October with the disclosure that an eight-ounce serving of **Dinty Moore** beef stew contained only 240 calories! For 50 years, consumers had been purchasing **Dinty Moore** beef stew for its fine taste without realizing they were being nutritionally smart as well.

A Strong Performance

Another time-honored Hormel product line, **Mary Kitchen** roast beef hash and **Mary Kitchen** corned beef hash, performed particularly well during the year. The three percent rise in tonnage volume was ahead of the industry growth rate.

A landmark new product, introduced last year, represents an entirely new food category. Unfrozen deluxe entrees are packaged shelf stable in microwaveable serving dishes.

Page 26: This landmark new product is the most thoroughly researched and tested in Company history. The 10-item line is a careful mixture of the exotic and the familiar.

The consistent growth of **Mary Kitchen** roast beef hash and **Mary Kitchen** corned beef hash that began in 1983 is attributed to several product advantages: consistent appearance, texture and flavor; convenient packaging in a three-piece can for easy removal and slicing, and attractive, eye-catching labels that accurately display the product inside.

Market Distribution Increased

In its second year, **Not-So-Sloppy-Joe** sloppy Joe sauce has attained 81 percent distribution. Sales volume growth for this newcomer in the multi-million dollar meat sauce category has been spectacular.

Entering a market category dominated by one major national brand, **Not-So-Sloppy-Joe** sloppy Joe sauce has succeeded in developing a strong market presence. An extensive campaign of spot radio, half-page magazine advertisements and a first-ever television commercial has helped build the sales momentum evidenced in all regions of this country for this exciting new product.

Chunk Products Continue Growth Momentum

Significant sales increases were recorded by **Hormel** chunk turkey and **Hormel** chunk chicken which correspond to the continued rise in per capita consumption and consumer preferences for poultry products. A new print campaign promoted the convenient, nutritious products as "The Casual Cuisine" for informal get-togethers.

Other Leading Brands

The Grocery Products Division's line of flavored bits is anchored by **Hormel** bacon bits, the best-selling brand in the real bacon bits category. Volume increased 15 percent nationally in fiscal 1987 for this industry leader.

Hormel sliced beef, introduced in 1985, continues to report improved sales gains. As measured by tonnage volume and market penetration, the growth of this new product since its national rollout in April 1986 has been superb.


Purina
DOG
General Mills
THANKS KIDS! YOU SAVED THE DAY!
Lucky Charms
REDKEN
Stouffer's
Swedish Meatballs
Hormel
Black Label
94% FAT FREE
Ernest & Julio Gallo
CHABLIS BLANC
Stroh's
Hostess
CUP CAKE
CALGON
Bath Oil Beads
For Soft, Silky Skin
clairol
Shampoo
Revitalizing Formula
Dual Protein Enriched with Collagen and Keratin
SPEAS
APPLE JUICE
KRAFT
Marshmallows
COLLAGEN ENRICHED
STYLE
Shampoo
Moisturizing Formula
For Dry or Damaged Hair
15 FL. OZ.
SUGAR FREE
Light & Lean
HEINZ
HomeStyle Gravy
BROWN
CLEANSING CREAM
Campbell's
CONDENSED
(BEEF)
GELATIN ADDED
SOUP
Kemps
Raspberry
LOWFAT YOGURT WITH ADDED CALCIUM
Kodak
Professional Film
Kodak Ektachrome
100
EPN 135-36
JOB DESCRIPTION
MATERIALS USED
DATE FINISHED
JOB TIME
REQUESTOR NON-CONFORMANCE

Industrial Products Division

Fiscal 1987 was a year of accelerated growth for the Industrial Products Division which offers an exceptional variety of specialized products to other food companies and processors.

Characterizing the past year's banner performance were capacity and productivity gains in manufacturing and distribution, preeminent product development efforts and an excellence in marketing that extended into international areas. These accomplishments were consistent with the Industrial Products Division's history of success.

Capacity and productivity gains in manufacturing and distribution, preeminent product development efforts and an excellence in marketing characterized the strong fiscal 1987 performance recorded by the Industrial Products Division.

Page 28: Hormel gelatin enjoys a wide diversity of use as an ingredient in other products.

Export Gelatin Sales

The year was one of significant improvement for export sales of gelatin into Europe, South America and the Far East. After many years in which U.S.-produced gelatin sales suffered severe import pressures, resulting in manufacturing and pricing restraints and a substantial loss of market share overseas, the pendulum swung in favor of U.S. industry due to the continued decline in value of the dollar against foreign currency.

International customers dropped their traditional sources of local supply and began using American-made gelatin. This was particularly true with confectionery customers in West Germany, Austria and England and in the Asian countries of Japan and Korea. The Industrial Products Division, as a major supplier to confectionery companies, had the capacity to satisfy this expanded foreign demand and operated throughout the year as a leading producer and marketer of special gelatins shipped overseas.

A highlight of this performance was the progress achieved at the Company's eight-year-old Davenport (Iowa) gelatin/specialized proteins plant. Praised as one of the most modern and superior gelatin producing facilities anywhere in the industry, this 117,000 square foot complex operated at full capacity during the year and established new records for production and sales. The plant was in operation virtually around-the-clock for 359 days of the Company's 371-day, 53-week 1987 fiscal year.

Cosmetic Protein Products

The Industrial Products Division's broadening line of specialty proteins benefited greatly in 1987 from the increased trade and consumer demand for sophisticated cosmetic, health and dietary products. Reflecting this interest were sizable volume increases for a diverse group of well-known collagen-derived proteins and the receptivity expressed for several new products developed for specific use in a variety of hair and skin care products.

Peptein 2000 hydrolyzed animal protein is the star performer of the line. Used in shampoos and conditioners, **Peptein 2000** adds to the hair those proteins removed by bleaching, coloring, permanent waving solutions and straighteners while supplying manageability, feel, body and sheen — characteristics all found to be desirable.

Peptein AH hydrolyzed animal protein, **Peptein KC** potassium coco hydrolyzed animal protein, **Peptein TEAC** TEA coco hydrolyzed animal protein and **Lipitein P** porcine skin lipids, all introduced last year, have gained increased acceptance by the cosmetic industry as ingredients ideally suited for use in shampoos, conditioners and moisturizing skin creams. **Elastein 5000,** another new addition, is a cosmetic gelatin with applications in skin care products.

The use of edible hydrolyzed collagen as an ingredient in dietary supplements continues to expand. The Industrial Products Division is a major supplier of flavored and unflavored **Hydrocol** and **Polypro 5000** collagen to the U.S. health care industry.

The diversity of the Industrial Products Division product portfolio also extends to flavored frozen tissue proteins and specialty fats which are sold to pet food manufacturers. These important byproducts improve the flavor and palatability of canned dog and cat foods.

Concentrated Meat Stocks

The Company's family of **Building Blocks** concentrated meat stocks, introduced in 1984, has reported three successive years of significant sales growth. The nationally marketed meat stocks add protein, body and a delicious meaty flavor to soups, sauces, stews, gravies, pot pies and frozen prepared entrees.

Private Label Desserts

The Company's long-established private label dessert business reported an excellent year in fiscal 1987. Contributing to the sharp volume gain was a dramatic rise in the number of food chain customers served and a growing acceptance among existing accounts for mainstream gelatin and pudding dessert products.

Particularly noteworthy was the continued market demand for sugar-free products containing G. D. Searle's *NutraSweet* brand aspartame. The increasing needs in 1987 by retail chains for additional shipments of private label sugar-free desserts boosted unit sales volume to a level greater than the industry rate.

An exciting new line of dry mix products is scheduled for introduction into the foodservice industry during fiscal 1988. Included are cake, pancake and muffin mixes, breadings, desserts and dry soup mixes.


JENNIE·O

Subsidiaries

Geo. A. Hormel & Company is a nationwide consumer products and services company. Its subsidiaries and divisions, both domestic and international, represent a well-balanced mix of sound businesses. Included are Jennie-O Foods, Inc., Willmar, Minn.; FDL Marketing, Inc., Dubuque, Iowa; Farm Fresh Catfish Company, Inc., Hollandale, Miss.; Catalogue Marketing, Inc., Austin, Minn.; Algona Food Equipment Company, Algona, Iowa, and Hormel International Corporation, Austin, among others.

Of major significance was the acquisition during fiscal 1987 of Jennie-O Foods, Inc., one of the nation's leading producers, processors and marketers of turkey products.

Page 30: Jennie-O® turkey products are regular menu items in America's households and can also be found in the finest hotels and restaurants.

Jennie-O Foods, Inc.

Of major significance in fiscal 1987 was the Company's acquisition on December 29, 1986, of Jennie-O Foods, Inc. One of the nation's leading producers, processors and marketers of turkey products, Jennie-O Foods, since its inception, has earned the reputation of having one of the proudest, most respected names and traditions in the food industry.

Jennie-O Foods continues to operate with basically its same management as a wholly owned subsidiary of Geo. A. Hormel & Company. Its Board of Directors has been restructured to include three members of the parent company's management team.

Both companies are benefiting from the strengths each brings to the other. Hormel is able to provide the financial resources and considerable research, technology and marketing expertise to help in the development and merchandising of the full line of fresh and frozen turkey products. Jennie-O, on the other hand, not only complements the many product lines in which Hormel has long been a leader but provides the Company with an additional opportunity to expand into the rapidly growing foodservice market and deli section of the supermarket — two areas of management focus in recent years.

Jennie-O revolutionized the industry three decades ago with the introduction of a boneless turkey roast. Its continuing commitment to the development of further-processed, value-enhanced products has brought well-deserved distinction to the firm as an industry leader. Today, its product portfolio, including whole birds, boneless turkey roasts, turkey cold cuts, wieners, hams, pastrami, bologna, salami and other all-turkey favorites, is sold to a wide variety of retail and foodservice outlets in all 50 states as well as to 25 foreign countries.

With turkey continuing its transition from a traditional holiday business to one that is active year-round, the growth potential for Jennie-O is bright. In addition, the demand for turkey by consumers who are seeking more healthful and inexpensive foods is on the upswing. These include products that are lower in calories, cholesterol and fat and offer the additional benefit of being an inexpensive protein source.

FDL Marketing, Inc.

Near the end of the fiscal year, Geo. A. Hormel & Company and FDL Foods, Inc., Dubuque, Iowa, agreed to a five-year extension of their agreement first signed in August 1985.

The agreement provides that FDL Marketing, Inc., a wholly owned subsidiary of Hormel, will continue as the exclusive marketer of all fresh meat and processed products produced by FDL Foods, including branded, private label and foodservice products. In addition, the arrangement permits FDL Foods, which operates plants in Dubuque and Rochelle, Ill., to supply Hormel with fresh pork and raw materials for processing and to manufacture pork products under Hormel brand names.

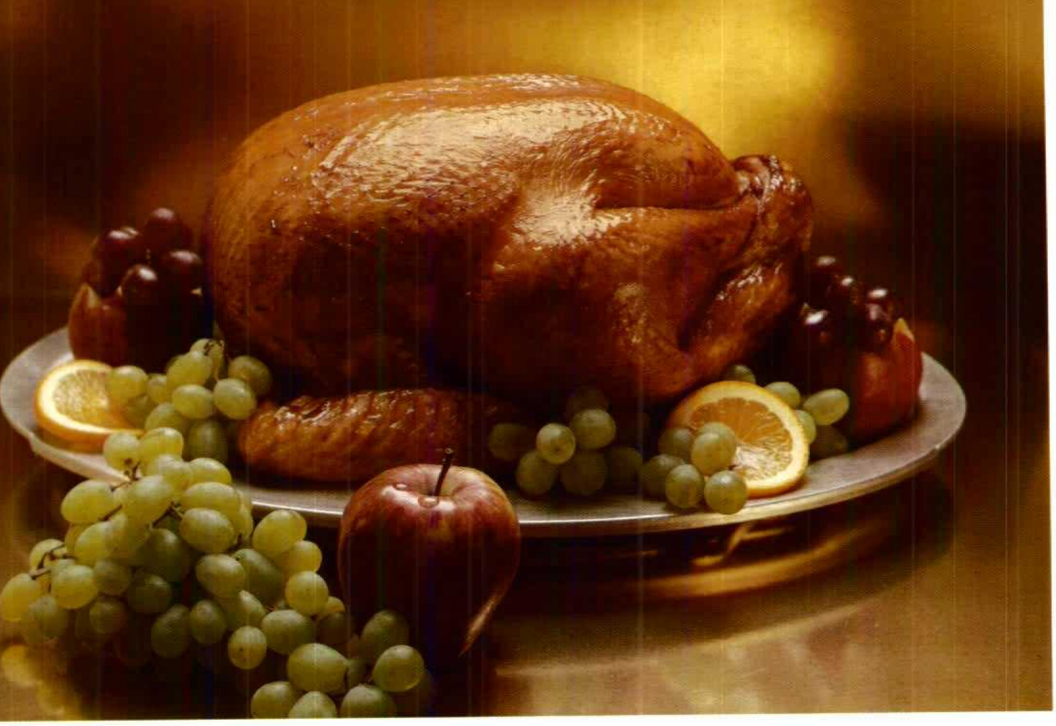
In the year just concluded, FDL Marketing focused its efforts on four major areas of opportunity — retail, foodservice, deli and wholesale buying clubs. At the retail level, consumer advertising, promotion and aggressive trade feature support helped improve distribution for the multi-item lines of franks, bacon and boneless and canned hams. To strengthen foodservice operations, a creative "Look of the Leader" advertising campaign emphasized FDL Marketing's strong position as a major supplier to restaurant and commercial institutions. Efforts were also directed to increasing overall tonnage through a combination of existing and new foodservice distributors and/or operators.

In fiscal 1988, FDL Marketing will launch a new, compelling advertising campaign that capitalizes on the favorable impressions consumers nationwide have for food products produced in the state of Iowa. Research studies reveal that Iowa-produced foods are perceived to be wholesome, of high quality and provide great value. FDL Marketing will emphasize its "Iowa Heritage" with a mix of regional spot television and radio commercials, billboards, consumer magazine and newspaper advertisements and sales promotions. This first class media blitz and accompanying promotional support represent two of the most ambitious advertising investments ever undertaken by FDL Marketing.

Farm Fresh Catfish Company, Inc.

Farm Fresh Catfish Company is among the nation's leading processors of catfish produced through aquaculture, or fish farming. The Company spawns, raises and processes farm-raised catfish and markets them through retail grocery stores and foodservice outlets.

Both retail frozen foods and foodservice markets were targeted as important priorities for new market penetration. The already familiar varieties of shank and regular fillets,




SPAM
& TONGUE
SPAM
SMOKED FLAVOURED
SPAM
CHOPPED
PORK
and
HAM
SPAM
PORK
HAM


세계적인 스팸
제일제당이
만듭니다.
SPAM
제일제당
세계적인 스팸을
제일제당이 만듭니다
SPAM


SPAM
SPAM

dressed whole fish products, steaks and nuggets were presented to customers as an excellent fit for consumers who prefer foods that have good taste, are consistently high in quality, offer convenience and value and provide sound nutrition. The results have been gratifying as evidenced by the strengthening of the Company's position in both old and new markets.

Farm Fresh plans to maintain its growth momentum by continuing to introduce new products that focus on these consumer preferences. This strategy was supported at midyear with the introduction of an upscale new line of flavored catfish entrees — blackened, Cajun-style, garlic & parsley and lemon butter. Convenient to prepare, these tasty fillets offer consumers their choice of four of today's most popular flavors. Each variety can easily be heated in a microwave or baked or broiled in a conventional oven. They're individually glazed with a specially formulated flavoring that won't bake off or run when prepared properly.

Catalogue Marketing, Inc.

A major strategic step to improve Geo. A. Hormel & Company's presence in the $16 billion gift catalog industry occurred during the year when Catalogue Marketing, Inc., a wholly owned subsidiary, acquired the assets of Sunshine Shippers, Inc., San Jose, Calif.

A nationwide marketer, Sunshine Shippers has catapulted into the number two position in the growing fruit marketplace which includes direct and wholesale mail orders and retail chain sales. Two gift catalogs — *Mission Orchards* and *Susan Green's California Cuisine* — offer seasonally available fruit and food gifts and are distributed during the holiday gift planning season and at other high volume mail order purchase periods.

While acquisition of Sunshine Shippers was adding important diversity to the Company's mail order opportunities, attention was also being given to the **Austin Street Market** catalog. Introduced in 1983, this catalog represented the Company's first major venture into the gift-by-mail market.

Performance exceeded expectations as **Austin Street Market** succeeded in recording excellent results in fiscal 1987. Five-year financial objectives were achieved two years ahead of schedule. An expansion of popular product lines, particularly poultry items, hams, steaks and sausages, was well received. Repeat orders and an increase in the number of new orders reaffirmed that the catalog brought together the right mix of premium gift items.

Hormel International Corporation

In building an international business, Geo. A. Hormel & Company's philosophy for expanding abroad has closely paralleled its domestic strategy. Through Hormel International Corporation (HIC), many of the same products produced domestically are manufactured or marketed internationally.

Hormel branded products, principally **SPAM** luncheon meat, are produced in six foreign countries — England, Australia, Japan, the Philippines, Republic of Korea and Taiwan, the Republic of China. The marketing of Hormel products in Mexico has been delayed due to the unsettled economic conditions in that country. Once the economy has stabilized, Hormel International will begin the introduction of a selected line of food products.

A new venture with Darling Downs Co-operative Bacon

Through Hormel International Corporation, many of the same products produced domestically are manufactured or marketed internationally.

Page 32: Products produced and marketed by Company subsidiaries. A Korean youngster models his SPAM® luncheon meat apparel.

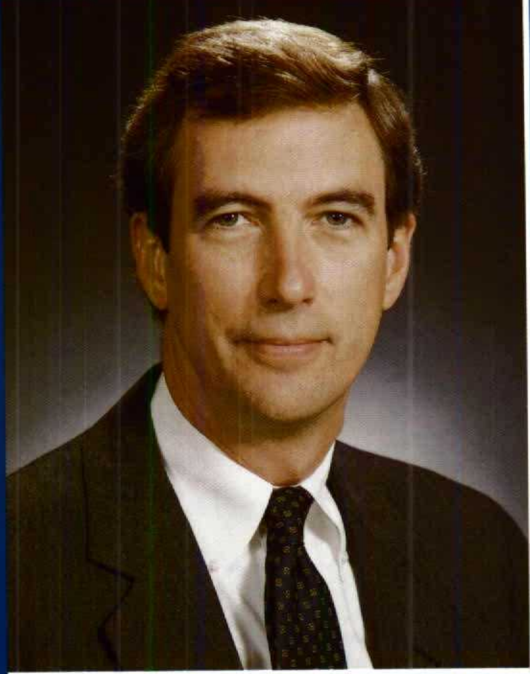
Assn. Ltd., a large cooperative and meat processor located in Toowoomba, Australia, will expand significantly the number of Hormel products produced and marketed in that country. Less salt/sodium **SPAM** luncheon meat, introduced during the past year, has already achieved national distribution. Products scheduled for their market debut in 1988 include **Hormel** bacon bits, **Light & Lean** ham and a two-pound shelf-stable ham.

Hormel Limited (Japan) continues to increase sales on the Japanese mainland. A recent expansion of production facilities now makes it possible to manufacture more traditional Japanese foods. Recently, The Calpis Hormel Co., Ltd., a joint venture between The Calpis Food Industry Ltd. and Hormel Limited (Japan), introduced four dry pack canned items under the *Beer Delica* brand. Suggested for use as hors d'oeuvres, the four items are Vienna sausage, spicy sausage, smoked chicken and smoked beef tongue.

Lee Tah Farm Industries Co., Ltd., headquartered in Kaohsiung, Taiwan, began production of **SPAM** luncheon meat late in the Company's fiscal year. Two varieties — **SPAM** luncheon meat and less salt/sodium **SPAM** luncheon meat — will be marketed into the Taiwan domestic market in 1988 and, along with **Hormel** all meat wieners, will be exported to Hormel International Corporation's Japanese affiliate, Hormel Limited (Japan), for sale on the mainland. Also during the year, **Hormel** all meat wieners, **Black Label** bacon and **Light & Lean** ham will be introduced into Taiwan.

Cheil Sugar & Co., Ltd., headquartered in Seoul, Korea, began production and sale of **SPAM** luncheon meat in April 1987. Cheil Sugar, as a subsidiary of the Samsung Group, is a sponsor of the 1988 Olympics to be held in Seoul. This permits their use of the "Hodori" logo, a tiger mascot, on **SPAM** luncheon meat cans. This designation identifies them as official Olympic meat sponsors.

Newforge Foods Limited, Liverpool, England, has produced **SPAM** luncheon meat for 30 years. It currently produces 10 items which carry the famous **SPAM** luncheon meat trademark. In 1987, their feature promotion was a **SPAM** lunch box which was offered as a consumer premium. Newforge Foods also exports **SPAM** luncheon meat to Spain and West Germany.






Officers and Directors

At fiscal year-end, the Board of Directors of Geo. A. Hormel & Company consisted of 13 members. Six were officers of the Company, one was an officer of a wholly owned Company subsidiary, and six were nonemployee directors.

The property, affairs and business of the corporation are managed by or under the direction of the Hormel Board. Regular meetings are scheduled throughout the year. Special meetings are called as necessary. The Board held eight regular meetings during fiscal 1987.

In addition to these meetings, members serve on various Committees of the Board which concentrate on specific areas of responsibility. The principal functions of the Board's six standing committees are briefly described.

Actions taken during the year will increase the depth of the Company's top management team while providing continuity in the development and growth of key personnel.

Page 34: (Top row), Scott A. Wallace and Forrest D. Dryden. (Center row), Marvin F. Moes and W. Eugene Mayberry, M.D. (Bottom row), Earl B. Olson and Raymond J. Asp.

Personnel Committee

R. L. Knowlton, *chairperson*
Clarence G. Adamy   DeWalt H. Ankeny, Jr.
Ray V. Rose

The Personnel Committee has four members, one an employee director and three nonemployee directors. This Committee has the authority to review and make recommendations to the Board of Directors and to the Chief Executive Officer on matters relating to employee compensation, retirement, medical and life insurance benefits and executive development planning.

Contributions Committee

James E. Hall, *chairperson*
Don J. Hodapp   William R. Hunter
Charles D. Nyberg

The Contributions Committee has four members, all of whom are employee directors. This Committee is involved in reviewing charitable contributions, many of which are made to activities and organizations in communities where the Company operates. It evaluates the needs of various organizations and recommends the extent to which corporate financial support should be made available to worthy educational, humanitarian services and civic project endeavors.

Audit Committee

Geraldine M. Joseph, *chairperson*
DeWalt H. Ankeny, Jr.   Sherwood O. Berg
W. Eugene Mayberry, M.D.

The Audit Committee, composed entirely of nonemployee directors, represents the Board in discharging its responsibilities relating to the accounting, reporting and financial control practices of the Company. The Committee has general responsibility for surveillance of financial controls as well as for accounting and audit activities of the Company. It approves services provided by independent certified public accountants and supervises investigations into matters within the scope of its duties.

Pension Investment Committee

Don J. Hodapp, *chairperson*
William R. Hunter   Charles D. Nyberg
Earl B. Olson

The Pension Investment Committee has four members, all of whom are employee directors. This Committee reviews the investment results and strategies of the investment manager. In addition, it recommends to the Board the appointment of investment advisers or managers.

Compensation Committee

Clarence G. Adamy, *chairperson*
DeWalt H. Ankeny, Jr.   Ray V. Rose

The Compensation Committee has three members, all of whom are nonemployee directors. This Committee approves standards for setting compensation levels for Company executives and grants the specific awards made under the Company's executive incentive compensation plans. This Committee will make recommendations to the Board on salary changes for certain management personnel and on matters concerning certain employee benefit plans.

Executive Committee

R. L. Knowlton, *chairperson*
James E. Hall   Don J. Hodapp   William R. Hunter
Charles D. Nyberg

The Executive Committee has five members, all of whom are employee directors. This Committee meets in place of the full Board when special issues or scheduling make it difficult to convene all the Directors. This Committee has most of the powers of the Board of Directors and may act when the Board is not in session.

CHANGES IN THE OFFICERS AND DIRECTORS

Several key changes made during fiscal 1987 further strengthened the Company's progress toward building a strong and flexible management team. In addition, the elec-

tion of two new directors brought added leadership skills and business experience to the Hormel Board.

Early in the year, Raymond J. Asp, executive vice president of International and Trade Relations, ended a 36-year Hormel career with his March 28 retirement. Asp served the Company for four years as a vice president; 10 years as a group vice president; nearly eight years as an executive vice president, and had been a member of the Hormel Board of Directors for more than 17 years. Much of his career was spent as a member of the Company's important Prepared Foods Group. Overseas trade was also a special interest in his later years and one to which he made a major contribution, bringing a wealth of wisdom and international business experience to the Company's efforts to expand its worldwide marketing opportunities.

Two actions taken during the year are expected to increase further the depth of the Company's top management team while providing continuity in the development and growth of key personnel. Forrest D. Dryden, director of the Research and Development Division, was elected a vice president of the corporation. A Hormel employee since September 1981, Dryden has contributed greatly to Company successes in new product and process development. Previously, Dryden had served for two years as assistant director of scientific affairs for the American Meat Institute in Arlington, Va.

Scott A. Wallace, executive vice president of Coca-Cola Foods, Houston, Texas, joined the Company late in the fiscal year as senior vice president of strategic planning and corporate development. His more than 20 years of food marketing experience and the increasingly responsible positions he held are valued assets he brings to Company efforts to seek out new ventures either through acquisitions or internal growth.

Coinciding with the creation of a Frozen Foods Division within the Company's organizational structure was the selection of Marvin F. Moes, a vice president of the corporation since January 1983, to oversee this promising new growth opportunity. A 27½-year Hormel veteran, Moes was vice president of the Deli Division prior to assuming his newest career assignment.

As announced briefly in last year's Annual Report to Stockholders, W. Eugene Mayberry, M.D., Rochester, Minn., was elected to the Hormel Board on October 27 — the first day of the Company's 1987 fiscal year. He served for many years as chairman of the Board of Governors of the Mayo Clinic and as president and chief executive officer of the Mayo Foundation. Dr. Mayberry continues his association with the Mayo Clinic in his capacity as president and chief executive officer of the Mayo Foundation.

Earl B. Olson, founder of Jennie-O Foods, Inc., Willmar, Minn., and its board chairman, a position he has held for more than 20 years, was elected to the Hormel Board March 23. A highly regarded executive in the turkey industry, Olson's long and brilliant career is distinguished by many personal achievements in business and community service. In addition to the far-reaching experience and business acumen he brings to the Board, Olson also serves as an important corporate liaison between Hormel and Jennie-O Foods which was acquired by the Company in December 1986 and now operates as a wholly owned subsidiary.

Officers and Directors of Geo. A

R. L. Knowlton
Chairman of the Board
President and Chief Executive Officer
Director since September 1974

James E. Hall
Group Vice President
Prepared Foods
Director since September 1984

Don J. Hodapp
Group Vice President
Administration
Director since April 1986

William R. Hunter
Group Vice President
Operations
Director since July 1979

James A. Silbaugh
Group Vice President
Meat Products
Director May 1983-December 1987
Retired December 31, 1987

Stanley E. Kerber
Senior Vice President
Meat Products Group Marketing

Charles D. Nyberg
Senior Vice President
Law Department, Human Resources and Public Affairs
General Counsel and Corporate Secretary
Director since March 1986

Scott A. Wallace
Senior Vice President
Strategic Planning and Corporate Development
Effective August 31, 1987

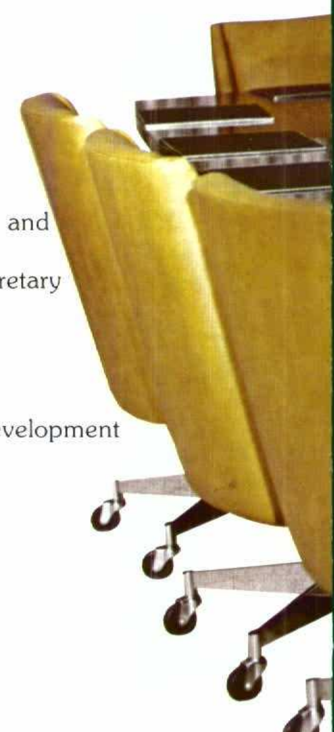
James DiNicola
Vice President
Meat Products Group Sales

Forrest D. Dryden
Vice President
Research and Development Division

David A. Larson
Vice President
Human Resources

Marvin F. Moes
Vice President
Frozen Foods Division

Robert F. Patterson
Vice President
Grocery Products Division



Hormel & Company

James N. Rieth
Vice President
Engineering

Richard W. Schlange
Vice President
Controller

Robert J. Thatcher
Vice President
Treasurer

Robert G. Wells
Vice President
Pork, Beef and Refineries Divisions

Walter B. Stevens
Assistant Treasurer
Finance and Bank Relations

Thomas J. Leake
Assistant Secretary

Clarence G. Adamy,
Alexandria, Va.
Food Industry Consultant
Former President
National Association of Food Chains
Director since January 1977

DeWalt H. Ankeny, Jr.,
Minneapolis, Minn.
Chairman of the Board and
Chief Executive Officer
First Bank System, Inc.
Director since December 1983

Sherwood O. Berg,
Brookings, S.D.
President and Professor
of Economics Emeritus
South Dakota State
University
Director June 1969-June 1973
Reelected November 1976

Geraldine M. Joseph,
Minneapolis, Minn.
Senior Fellow
International Programs
Hubert H. Humphrey
Institute of Public Affairs
Director August 1974-July 1978
Reelected April 1981

W. Eugene Mayberry, M.D.,
Rochester, Minn.
President and
Chief Executive Officer
Mayo Foundation
Director since October 1986

Earl B. Olson,
Willmar, Minn.
Chairman of the Board
Jennie-O Foods, Inc.
Elected March 23, 1987

Ray V. Rose,
Colorado Springs, Colo.
Food Industry Consultant
Former Supermarket Chain
Chief Executive Officer
Director since October 1981

Stockholder Information

Whether you are a new owner of Geo. A. Hormel & Company common stock or a stockholder of longstanding, questions often arise regarding important matters associated with your ownership role. For example, how can stock be transferred if you should want to change the registration on your stock certificates? What should you do if a certificate is lost or stolen? How can duplicate mailings be eliminated? The information which follows addresses many of the questions frequently asked by Company stockholders.

Corporate Headquarters
Geo. A. Hormel & Company
501 16th Avenue N.E.
P.O. Box 800
Austin, Minn. 55912
(507) 437-5611

About Your Stock

Geo. A. Hormel & Company common stock is listed on the American Stock Exchange. The stock is listed as "Horml" on the stock table listings which appear in daily newspapers. The common stock trades under the ticker symbol "HRL."

At the end of fiscal 1987, 38,426,064 shares of Geo. A. Hormel & Company common stock were outstanding. There were approximately 7,000 stockholders of record.

In addition, a large number of employees hold stock through the Company's Employee Stock Purchase Plan; the Hormel Tax Deferred Investment Plan 401(k); Joint Earnings Profit Sharing Trust, and Founders' Fund PAYSOP (Payroll Based Employee Stock Ownership Plan).

Geo. A. Hormel & Company stockholders reside in all 50 states, the District of Columbia and a number of overseas locations.

Comparative Performance

According to the April 27, 1987, *Fortune 500* directory, Geo. A. Hormel & Company, based on fiscal 1986 data, ranked 181 in the list of the nation's 500 largest industrial companies. The Company's ranking with the *Fortune 500* industrials is reflected in the table which follows:

Sales	181
Net Income	267
Assets	366
Stockholders' Equity	305
Net Income as % of Sales	341
Net Income as % of Assets	173
Net Income as % of Stockholders' Equity	244
Earnings Per Share Growth Rate (1976-86)	132
Total Return to Investors Growth Rate (1976-86)	81
Total Return to Investors (1986)	107

Auditors
Ernst & Whinney
1400 Pillsbury Center
Minneapolis, Minn. 55402

Based on fiscal 1986 data, Geo. A. Hormel & Company ranked 181 in the list of the nation's 500 largest industrial companies. . . At the end of fiscal 1987, 38,426,064 shares of Company common stock were outstanding.

Page 38: Geo. A. Hormel & Company common stock is listed on the American Stock Exchange.

Transfer Agent
The First National Bank of Chicago
One First National Plaza
Chicago, Ill. 60670

Communications concerning change in registered ownership and lost or stolen certificates should be directed to the Transfer Agent above.

The Transfer Agent has primary responsibility for the efficient transfer of Geo. A. Hormel & Company common stock, including maintenance of stockholder records and the cancellation and issuance of stock certificates.

Registrar
Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Ill. 60690

The Registrar verifies that when stock is transferred, the new number of shares issued is equal to the number of shares canceled. This double checking of the debit and credit of stock transfers is extra protection for stockholders and the Company.

Stockholder Inquiries

Communications concerning dividends and change of address should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5298.

Additional Information

Media representatives and others seeking general information regarding Geo. A. Hormel & Company should contact the Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Security analysts, portfolio managers and other investors seeking financial information about the Company should contact the Office of the Treasurer, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5950.

Reports and Publications

This Annual Report is just one of the sources of information about the Company available to stockholders and the general public. Some of the other sources include:

Form 10-K to the Securities and Exchange Commission

Available in January, this Report provides further details of Geo. A. Hormel & Company's business. Stockholders of record and/or beneficial owners of the Company's stock may obtain, without charge, a copy of the most recent Form 10-K. A written request should be directed to Geo. A. Hormel & Company, %Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Form 10-Q to the Securities and Exchange Commission

The Form 10-Q quarterly reports filed with the Securities and Exchange Commission are available in March, June and September from the Director of Public Relations, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5334.

Notice of Annual Meeting and Proxy Statement

Mailed in January, this publication provides biographies of the nominees for the Board of Directors, details of the shares of Hormel common stock they own and a description of their principal affiliations with other companies or organizations. The proxy statement also describes items of business to be voted on at the Annual Meeting.

Accompanying the proxy statement is the proxy card which should be signed, dated and returned promptly to ensure that all shares are represented at the meeting and voted in accordance with instructions of their holders.

Quarterly Reports

Mailed to each stockholder in February, May, August and November, these reports contain financial information and other current news about the Company.

Report on Annual Meeting of Stockholders

Mailed to each stockholder in February, shortly after the Annual Meeting, it summarizes the activities which transpired, providing a complete text of the chief executive officer's address and the results of voting on items of business.

Policy on Public Disclosure

Geo. A. Hormel & Company adheres to a corporate policy of disseminating all pertinent financial data and other material information on corporate activities on a timely basis and in accordance with applicable laws and regulations. An ongoing program, through which accurate, objective and timely disclosure of important information is released, continues to be the best way of discharging corporate responsibility for communications. In doing so, investor audiences, including present stockholders, can make informed judgments about the Company's current position, its future prospects and the quality of its management.

Duplicate Mailings

Annual and quarterly reports and other corporate correspondence are automatically sent to each registered Geo. A. Hormel & Company stockholder. The Company is required by law to mail to each name on the stockholder list unless the stockholder requests duplicate mailings be eliminated. If more than one member of your family, husband, wife and children, have Hormel common stock registered in his and/or her name, reports will be sent to each unless the stockholder helps to eliminate this duplication by requesting only one copy.

If you so desire, you may eliminate some or all of these extra copies. Such requests should be directed to Geo. A. Hormel & Company, %Corporate Secretary, P.O. Box 800, Austin, Minn. 55912, or by calling (507) 437-5298. In doing so, you can specify which registered stockholder account names you would like deleted from the Annual Report, quarterly reports or other publications. If possible, labels or label information indicating which name you wish to keep on the list and which names are to be deleted should accompany your request. This procedure achieves a significant cost reduction in production and mailing of the reports and saves the stockholder the annoyance of receiving duplicate mail.

This will not in any way affect dividend check mailings. Each registered stockholder will continue to receive regular quarterly dividends.

This Annual Report is just one of the sources of information available to stockholders and the general public. Other reports and publications provide timely financial information and current news about the Company and its performance.

Dividend Calendar

"Stockholder of record" refers to a stockholder who is entitled to receive a dividend on the "payable date" if he or she is listed as a Geo. A. Hormel & Company stockholder on the "record date" (approximately 30 days before the payable date).

Quarterly dividends are mailed with the intent of reaching stockholders of Geo. A. Hormel & Company on the fifteenth of February, May, August and November of each quarter in which a dividend is declared. Postal delays may cause actual receipt dates to vary.

Geo. A. Hormel & Company's Board of Directors typically declares the payment of a cash dividend each quarter. Since becoming a public company in 1928, Hormel has never failed to make a quarterly dividend — a payout record that now extends to 59 consecutive years.

Tax Reports on Dividend Income

Corporate cash dividends are considered taxable as ordinary income and, as such, must be included in reporting personal income for tax purposes. Geo. A. Hormel & Company is required to report to the Internal Revenue Service the total amount of stockholder dividends paid each year. Form 1099-DIV entitled "Statement of Dividends and Distributions" contains the information supplied to the IRS for each stockholder account. This form, which may be used as a convenient reference and record when personal income taxes are filed, is mailed to stockholders by January 31 of the following year.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of Geo. A. Hormel & Company which is responsible for their integrity and objectivity. These statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and, as such, include amounts that are based on our best estimates and judgments.

Geo. A. Hormel & Company has developed a system of internal controls designed to assure that the records reflect the transactions of the Company and that the established policies and procedures are adhered to. This system is augmented by well communicated written policies and procedures, a strong program of internal audit and well qualified personnel.

These financial statements have been examined by Ernst & Whinney, independent certified public accountants, and their report appears on page 41. Their examination is conducted in accordance with generally accepted auditing standards and includes a review of the Company's accounting and financial controls and tests of transactions.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent public accountants, management and the internal auditors to assure that each is carrying out its responsibilities. Both Ernst & Whinney and our internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the results of their audit work and their opinions on the adequacy of internal controls and the quality of financial reporting.

RW Schlange

R. W. SCHLANGE
Vice President and Controller

R. L. KNOWLTON
Chairman of the Board
President and Chief Executive Officer

COMMON STOCK DATA

Geo. A. Hormel & Company common stock is listed on the *American Stock Exchange.* The high and low closing price of the Company's stock and the dividends per share paid during each quarter of fiscal 1987 and 1986, respectively, are shown below. Quotations were obtained from the *American Stock Exchange.* The number of stockholders at October 31, 1987, approximated 7,000.

1987

	High	*Low*	*Dividend*
First Quarter	$18\frac{3}{4}$	$14\frac{7}{8}$	$\$.07\frac{1}{2}$
Second Quarter	$20\frac{1}{2}$	17	$\$.07\frac{1}{2}$
Third Quarter	$25\frac{1}{4}$	$18\frac{1}{16}$	$\$.07\frac{1}{2}$
Fourth Quarter	$28\frac{1}{2}$	$18\frac{3}{8}$	$\$.07\frac{1}{2}$

1986

	High	*Low*	*Dividend*
First Quarter	$13\frac{1}{4}$	$10\frac{1}{2}$	$.07
Second Quarter	$15\frac{1}{4}$	$11\frac{5}{16}$	$.07
Third Quarter	$17\frac{1}{2}$	$14\frac{15}{16}$	$.07
Fourth Quarter	$16\frac{11}{16}$	$15\frac{3}{16}$	$.07

Figures have been restated to give effect for the two-for-one stock split which was effective June 1, 1987.

SELECTED FINANCIAL DATA

(Thousands of Dollars)

OPERATIONS	1987*	1986	1985
Net Sales	$2,314,082	$1,960,237	$1,502,235
Net Earnings	45,944	39,079	38,618
Percent of Sales	1.99%	1.99%	2.57%
Wage Costs	255,429	222,535	233,512
Total Taxes (excluding Payroll Tax)	41,797	38,297	40,500
Depreciation	32,526	30,741	28,087
FINANCIAL POSITION			
Working Capital	$ 147,969	$ 196,199	$ 152,985
Properties (net)	263,917	255,159	264,679
Total Assets	697,970	584,744	560,939
Long-Term Debt — Less Current Maturities	48,831	63,264	64,334
Stockholders' Investment	373,120	339,925	311,605
PER SHARE OF COMMON STOCK			
Net Earnings	$ 1.20	$ 1.02	$ 1.00
Dividends	.30	.28	.27
Stockholders' Investment	9.71	8.85	8.11

**53 Weeks*

FINANCIAL SECTION

FINANCIAL HIGHLIGHTS

	1987	1986
Net Sales	$ 2,314,082,000	$ 1,960,237,000
Net Earnings	$ 45,944,000	$ 39,079,000
Per Share of Common Stock	$ 1.20	$ 1.02
Percent of Sales	1.99%	1.99%
Dividends to Stockholders	$ 11,527,000	$ 10,759,000
Per Share of Common Stock	$ .30	$ .28
Capital Additions	$ 18,332,000	$ 21,477,000
Depreciation	$ 32,526,000	$ 30,741,000
Working Capital	$ 147,969,000	$ 196,199,000
Stockholders' Investment	$ 373,120,000	$ 339,925,000

ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the statements of financial position of Geo. A. Hormel & Company as of October 31, 1987, and October 25, 1986, and the related statements of earnings, changes in stockholders' investment and changes in financial position for each of the three years in the period ended October 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

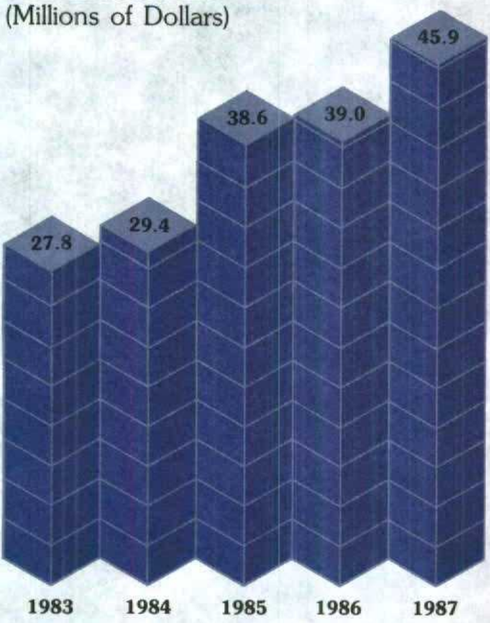
In our opinion, the financial statements referred to above present fairly the financial position of Geo. A. Hormel & Company at October 31, 1987, and October 25, 1986, and the results of its operations and changes in its financial position for each of the three years in the period ended October 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota
November 24, 1987

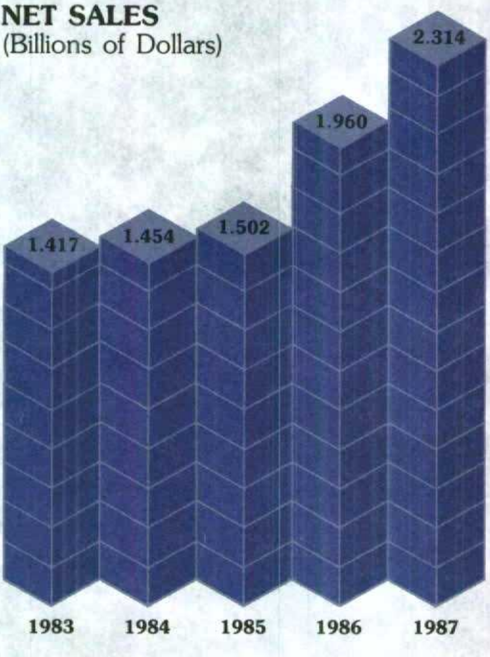
Ernst & Whinney

GRAPHS DEPICT FINANCIAL PROGRESS

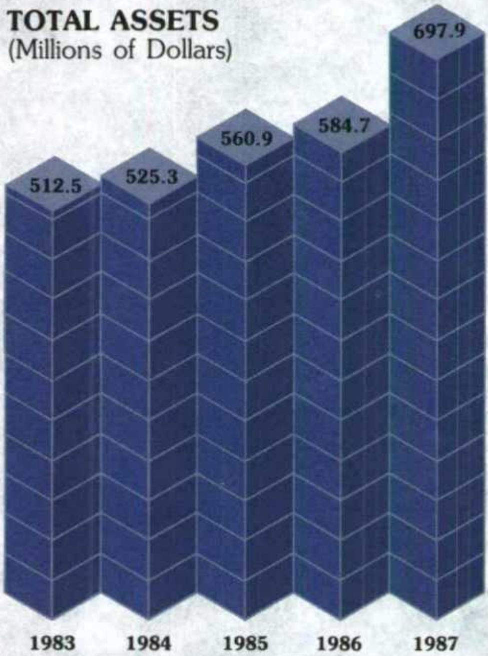
NET EARNINGS
(Millions of Dollars)



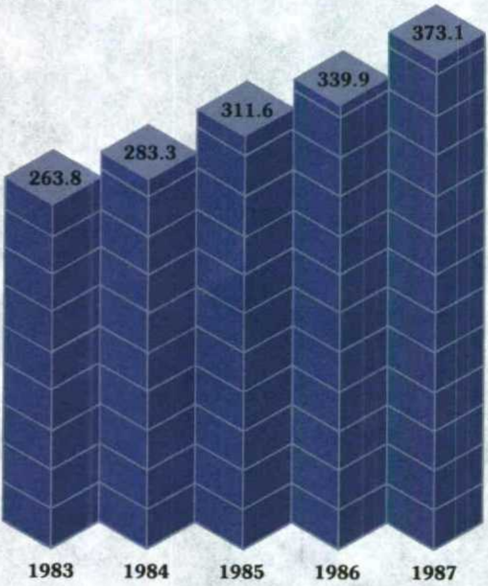
NET SALES
(Billions of Dollars)



TOTAL ASSETS
(Millions of Dollars)



STOCKHOLDERS' INVESTMENT
(Millions of Dollars)



STATEMENTS OF FINANCIAL POSITION

GEO. A. HORMEL & COMPANY

	October 31, 1987	October 25, 1986
	(Thousands of Dollars)	
ASSETS		
CURRENT ASSETS		
Cash	**$ 19,152**	$ 14,697
Short-term marketable securities—at cost which approximates market	**45,112**	69,297
Accounts receivable	**151,821**	117,746
Inventories	**136,373**	116,480
Prepaid expenses	**13,505**	2,503
TOTAL CURRENT ASSETS	**365,963**	320,723
INVESTMENTS AND OTHER ASSETS	**21,372**	8,862
GOODWILL	**46,718**	
PROPERTY, PLANT AND EQUIPMENT		
Land	**5,942**	3,995
Buildings	**128,483**	115,719
Equipment	**351,240**	332,085
Construction in progress	**11,975**	8,974
	497,640	460,773
Less allowance for depreciation	**(233,723)**	(205,614)
	263,917	255,159
	$ 697,970	$ 584,744

GEO. A. HORMEL & COMPANY

1984	1983	1982	1981*	1980	1979	1978
,454,527	$1,417,705	$1,426,596	$1,433,966	$1,321,966	$1,414,016	$1,244,865
29,492	27,897	28,051	27,283	32,758	29,970	19,471
2.03%	1.97%	1.97%	1.90%	2.48%	2.12%	1.56%
241,210	250,724	269,964	270,522	254,303	233,878	201,633
30,394	28,483	22,805	18,796	28,077	27,635	17,997
27,056	26,410	17,587	13,887	13,452	12,102	11,551
106,332	$ 95,403	$ 69,527	$ 59,440	$ 69,843	$ 84,646	$ 77,523
263,929	270,103	276,684	228,813	160,825	119,213	103,992
525,322	512,559	488,859	425,065	355,853	323,149	279,495
56,695	82,164	88,264	65,834	28,495	28,749	28,993
283,362	263,861	245,570	226,741	208,296	183,608	160,747
.77	$ .73	$ .73	$ .71	$ .85	$ .78	$ .51
.26	.25	.24	.23	.21	.18	.17
7.37	6.87	6.39	5.90	5.42	4.78	4.18

	October 31, 1987	October 25, 1986
	(Thousands of Dollars)	
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	**$ 75,711**	$ 47,096
Accrued expenses	**17,970**	15,153
Accrued advertising	**13,855**	9,659
Employee compensation	**29,602**	27,440
Taxes other than federal income taxes	**10,499**	9,018
Dividends payable	**2,881**	2,690
Federal income taxes	**16,262**	12,369
Current maturities of long-term debt	**51,214**	1,099
TOTAL CURRENT LIABILITIES	**217,994**	124,524
LONG-TERM DEBT — less current maturities	**48,831**	63,264
OTHER LONG-TERM LIABILITIES	**2,993**	2,409
DEFERRED INCOME TAXES	**55,032**	54,622
STOCKHOLDERS' INVESTMENT		
Common Stock, par value $.2344 a share — authorized: 1987 — 100,000,000 shares; 1986 — 48,000,000 shares; issued 38,426,064 shares	**9,007**	9,007
Additional paid-in capital	**2,922**	2,760
Shares held in treasury	**(1,196)**	
	10,733	11,767
Earnings reinvested in business	**362,387**	328,158
	373,120	339,925
	$ 697,970	$ 584,744

See notes to financial statements.

STATEMENTS OF EARNINGS

GEO. A. HORMEL & COMPANY

	Fiscal Year Ended		
	October 31, 1987	October 25, 1986	October 26, 1985
	(In Thousands, Except Per Share Amounts)		
Sales, less returns and allowances	**$ 2,314,082**	$ 1,960,237	$ 1,502,235
Cost of products sold	**1,934,650**	1,614,709	1,185,078
GROSS PROFIT	**379,432**	345,528	317,157
Expenses:			
Selling and delivery	**242,374**	230,730	203,558
Administrative and general	**49,204**	40,545	33,426
OPERATING INCOME	**87,854**	74,253	80,173
Other income and expenses:			
Other income — net	**(1,555)**	(4,491)	(2,959)
Interest	**9,529**	7,900	11,394
EARNINGS BEFORE INCOME TAXES	**79,880**	70,844	71,738
Provision for income taxes	**33,936**	31,765	33,120
NET EARNINGS	**$ 45,944**	$ 39,079	$ 38,618
EARNINGS PER SHARE	**$ 1.20**	$ 1.02	$ 1.00

See notes to financial statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' INVESTMENT

GEO. A. HORMEL & COMPANY

(In Thousands, Except Per Share Amounts)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Earnings Reinvested in Business	Total Stockholders' Investment
	Shares	Amount	Shares	Amount			
Balance at October 27, 1984	38,426	$ 9,007			$ 2,760	$ 271,595	$ 283,362
Net earnings						38,618	38,618
Cash dividends — $.27 per share						(10,375)	(10,375)
Balance at October 26, 1985	38,426	9,007			2,760	299,838	311,605
Net earnings						39,079	39,079
Cash dividends — $.28 per share						(10,759)	(10,759)
Balance at October 25, 1986	38,426	9,007			2,760	328,158	339,925
Purchases of Common Stock			(109)	$ (2,149)			(2,149)
Shares issued for employee stock option plans			51	953		(188)	765
Tax benefit realized upon exercise of nonqualified stock options					162		162
Net earnings						45,944	45,944
Cash dividends — $.30 per share						(11,527)	(11,527)
Balance at October 31, 1987	38,426	$ 9,007	(58)	$ (1,196)	$ 2,922	$ 362,387	$ 373,120

See notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

GEO. A. HORMEL & COMPANY

	Fiscal Year Ended		
	October 31, 1987	October 25, 1986	October 26, 1985
		(Thousands of Dollars)	
Cash from operations:			
Net earnings	**$ 45,944**	$ 39,079	$ 38,618
Items not requiring cash:			
Depreciation	**32,526**	30,741	28,087
Amortization of goodwill	**1,009**		
Deferred taxes	**410**	6,524	9,869
TOTAL FUNDS FROM OPERATIONS	**79,889**	76,344	76,574
Working capital changes increasing (decreasing) cash:			
Accounts receivable	**(34,075)**	(9,979)	(23,014)
Inventories	**(19,893)**	(6,607)	5,245
Other current assets	**(11,002)**	(414)	269
Current liabilities, except for debt changes and dividends payable	**43,164**	(11,588)	14,142
	(21,806)	(28,588)	(3,358)
TOTAL CASH FROM OPERATIONS	**58,083**	47,756	73,216
Financing activities:			
Increase (decrease) in long-term debt and other long-term liabilities	**24,873**	453	(16,733)
Dividends paid on Common Stock	**(11,336)**	(10,663)	(10,279)
	13,537	(10,210)	(27,012)
Investment in long-term assets:			
Purchases of property, plant and equipment	**(18,332)**	(21,477)	(29,444)
Carrying value of disposals of property, plant and equipment	**1,529**	256	607
Purchase of Jennie-O Foods, Inc. (excluding net current assets of $22,571,000):			
Property, plant and equipment	**(24,481)**		
Other assets acquired	**(1,741)**		
Goodwill	**(47,727)**		
	(73,949)		
Long-term debt assumed	**11,393**		
	(62,556)		
Other	**(1,222)**		
Decrease (increase) in investments and other assets	**(10,769)**	(1,070)	1,200
	(91,350)	(22,291)	(27,637)
INCREASE (DECREASE) IN CASH AND SHORT-TERM MARKETABLE SECURITIES	**$ (19,730)**	$ 15,255	$ 18,567

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GEO. A. HORMEL & COMPANY

OCTOBER 31, 1987

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The financial statements include the accounts of Geo. A. Hormel & Company and all of its majority-owned subsidiaries after elimination of all significant intercompany accounts, transactions and profits. Investments in unconsolidated foreign companies are included in the financial statements at the Company's cost.

Segment Information: Hormel is engaged in a single business segment designated as "meat and food processing." As a federally inspected food processor, Hormel is engaged in the processing of livestock into meat and meat products, production of a variety of prepared foods, and the marketing of those products. Export sales account for less than 1% of sales. No customer accounts for more than 3% of sales.

Inventories: Inventories are valued at the lower of cost or market. Livestock and the materials portion of products are valued on the first-in, first-out method, with the exception of the material portion of turkey products which are valued on the last-in, first-out method. Substantially all inventoriable expenses, packages and supplies are valued by the last-in, first-out method, with the exception of such costs related to turkey products, which are valued on the first-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets, primarily on a straight-line basis.

Income Taxes: Provision is made in the financial statements for deferred income taxes arising primarily from timing differences in accounting for depreciation for tax and financial reporting purposes. Investment tax credit in 1986 and 1985 has been accounted for on the flow-through method. No investment tax credit was available in 1987 as a result of the enactment of the Tax Reform Act of 1986.

Earnings Per Share: Earnings per share of Common Stock are based on the weighted average number of shares and Common Stock equivalents outstanding during the year. Earnings and dividends per share for all periods presented have been restated to give effect for the two-for-one stock split which occurred during the year.

Reclassifications: Certain prior years' balances have been reclassified to conform to the 1987 classification.

Fiscal Year: The Company's fiscal year ends on the last Saturday in October. Fiscal year 1987 consisted of 53 weeks; fiscal years 1986 and 1985 consisted of 52 weeks.

NOTE B — INVENTORIES

Inventoriable expenses, packages and supplies amounting to approximately $24,300,000 at October 31, 1987, $29,500,000 at October 25, 1986, and $34,100,000 at October 26, 1985, are stated at cost determined by the last-in, first-out method, and are $15,700,000, $15,500,000 and $15,300,000 lower in the respective years than such inventories determined under the first-in, first-out method. Turkey products amounting to $4,303,000 at October 31, 1987, are stated at cost determined by the last-in, first-out method and are $432,000 lower than such inventories determined under the first-in, first-out method.

NOTE C — LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt consists of:	**October 31, 1987**	October 25, 1986
	(Thousands of Dollars)	
Two-Year Notes	**$ 25,000**	
Three-Year Notes	**50,000**	$ 50,000
Capitalized leases related to industrial revenue bonds	**25,045**	14,363
	100,045	64,363
Less current maturities	**51,214**	1,099
	$ 48,831	$ 63,264

NOTES TO FINANCIAL STATEMENTS
(Continued)

The Company has $25,000,000 of Two-Year Notes which carry an interest rate of 7% and mature on December 31, 1988, and $50,000,000 of Three-Year Notes which carry an interest rate of 10.10% and mature on September 1, 1988. The note agreements contain certain provisions and restrictions relating to limitations on liens, sale and leaseback arrangements and funded debt. The Company is in compliance with these covenants at October 31, 1987. The Company's industrial revenue bonds carry interest rates varying from 5.25% to 12.0% and mature in varying installments from 1989 to 2007.

At October 31, 1987, the Company had unused lines of credit of $15,300,000 for short-term borrowing. The Company generally maintains average compensating balances for borrowings under each line of credit to a stated amount based upon bank ledger balances adjusted for uncollected funds, equal to 5% of the banks' commitments plus 5% of borrowings. A fixed fee is paid for the availability of each credit line above the stated amount. Based upon total bank commitments at October 31, 1987, the Company should maintain average compensating balances of approximately $330,000, which stated in terms of the Company's book balances, is approximately $2,123,000. The difference is attributable to uncollected funds. During the year ended October 31, 1987, the Company maintained average collected balances of approximately $442,000 (all of which relates to its average unused lines of credit). Compensating balances are not restricted as to withdrawal.

Maturities of long-term debt for the five fiscal years subsequent to October 31, 1987, are as follows: 1988 — $51,214,000; 1989 — $26,734,000; 1990 — $1,329,000; 1991 — $1,407,000; 1992 — $4,268,000.

NOTE D — EMPLOYEE BENEFITS

The Company and its subsidiaries have several noncontributory defined benefit plans covering most employees. Benefits for plans covering hourly employees are provided based on stated amounts for each year of service while plan benefits covering salaried employees are based on final average compensation. The Company's funding policy is to make annual contributions of not less than the minimum required by applicable regulations.

In 1986, the Company adopted FASB Statement No. 87, "Employers' Accounting for Pensions." Pension expense and related information presented below for 1985 have not been retroactively restated.

A summary of the components of net periodic pension cost for 1987 and 1986 and the net pension cost for 1985 is as follows:

	1987	1986	1985
		(Thousands of Dollars)	
Service cost — benefits earned during the year	**$ 5,761**	$ 3,286	
Interest cost on projected benefit obligation	**26,010**	24,190	
Actual return on plan assets	**(16,033)**	(51,909)	
Net amortization and deferral	**(13,041)**	26,814	
Net pension costs	**$ 2,697**	$ 2,381	$ 8,736

Assumptions used in accounting for the defined benefit plans in 1987 and 1986 were:

	1987	1986
Weighted average discount rates	**8.25%**	7.5%
Rates of increase in compensation levels	**6.5**	5.0
Expected long-term rate of return on assets	**10.5**	10.0

The following table sets forth the plans' funded status and amounts recognized in the statements of financial position:

	October 31, 1987		October 25, 1986	
	Plans Whose Assets Exceed Accrued Benefits	**Plans Whose Accrued Benefits Exceed Assets**	Plans Whose Assets Exceed Accrued Benefits	Plans Whose Accrued Benefits Exceed Assets
	(Thousands of Dollars)			
Actuarial present value of benefit obligations:				
Vested benefit obligation	**$ 104,099**	**$ 189,259**	$ 103,745	$ 208,974
Nonvested benefit obligation	**9,032**	**6,413**	6,891	3,609
Accrued benefits	**113,131**	**195,672**	110,636	212,583
Effects of estimated future pay increases	**34,108**	**—**	23,741	—
Projected benefit obligations	**147,239**	**195,672**	134,377	212,583
Plan assets at fair value	**122,977**	**174,593**	119,679	181,589
Projected benefit obligations in excess of plan assets	**24,262**	**21,079**	14,698	30,994
Unrecognized net gain (loss)	**(28,057)**	**(12,790)**	(17,427)	(19,411)
Remaining net asset (obligation) at transition	**3,362**	**(9,436)**	3,531	(10,006)
Net pension liability (asset) in statement of financial position	**$ (433)**	**$ (1,147)**	$ 802	$ 1,577

At October 31, 1987, plan assets included Common Stock of the Company having a market value of $31,784,000.

The Company's subsidiary, Jennie-O Foods, Inc., has a noncontributory, defined contribution pension plan covering all employees working a specified number of hours per year. Contributions to the pension plan are based upon a fixed percentage of all eligible employees' gross earnings. The subsidiary also has a profit sharing plan covering salaried employees working a specified number of hours per year. Profit sharing contributions are made at the sole discretion of Jennie-O's Board of Directors. For 1987, these benefit costs were $1,046,000.

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits to retired employees. Persons who are working for the Company at the time of their retirement are eligible for health care and life insurance benefits providing they qualify for pension benefits. The cost of retiree health care and life insurance benefits is recognized as expense as claims are paid. For 1987, those costs totaled $10,311,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE E — INCOME TAXES

The components of the provision for income taxes are as follows:

	1987	1986	1985
	(Thousands of Dollars)		
Current:			
U.S. Federal	**$ 29,898**	$ 22,916	$ 20,731
State	**3,628**	2,325	2,520
	33,526	25,241	23,251
Deferred:			
U.S. Federal	**389**	5,882	9,225
State	**21**	642	644
	410	6,524	9,869
	$ 33,936	$ 31,765	$ 33,120

Included in the provision for deferred federal income taxes is the effect of timing differences for depreciation (1987 — ($1,529,000); 1986 — $8,104,000; 1985 — $10,568,000). Deferred taxes have been provided based on the statutory rate in effect during the Company's respective fiscal years (42% in 1987 and 46% in 1986 and 1985). It is anticipated that these timing differences will reverse in future years affecting the Company's tax return at the 34% statutory rate enacted by the Tax Reform Act of 1986.

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate follows:

	1987	1986	1985
U.S. statutory rate	**42.0%**	46.0%	46.0%
State taxes on income, net of federal tax benefit	**2.6**	2.3	2.4
Investment tax credits		(2.3)	(3.1)
All other, net	**(2.1)**	(1.2)	.9
Effective tax rate	**42.5%**	44.8%	46.2%

NOTE F — RELATED PARTY TRANSACTIONS

In September 1985, the Company entered into a two-year marketing agreement with FDL Foods, Inc., a meat processing company located in Dubuque, Iowa. Under the agreement, the Company's wholly owned subsidiary, FDL Marketing, Inc., purchases at cost (approximately $677,000,000 in 1987 and $575,000,000 in 1986), markets and distributes the entire production of FDL Foods. The combined pretax income of FDL Foods and FDL Marketing is divided between the subsidiary and FDL Foods.

In August 1987, the Company extended the marketing agreement with FDL Foods for an additional five years. As part of the agreement, the Company has the option to purchase FDL Foods at any time during the life of the agreement. The Company may also terminate the agreement any time during the five-year period. Under the agreement, the Company loaned FDL Foods $5,000,000 in exchange for a subordinated promissory note. The note carries an interest rate of 2% above the prime rate and is to be repaid in varying installments from 1992 to 1996.

During the year ended October 31, 1987, the Company's wholly owned subsidiary, Jennie-O Foods, Inc., purchased $4,781,000 of turkeys from Earl B. Olson Enterprises, a company owned by Earl B. Olson, a director of the Company and former owner of Jennie-O Foods. The Company also has an account receivable for approximately $1,000,000 due from Earl B. Olson Enterprises as of October 31, 1987.

NOTE G — LEASES

Rental expense and future lease commitments are not material.

NOTE H — COMMITMENTS

In order to ensure a steady supply of turkeys and to keep the cost of products stable, the Company enters into contracts to purchase turkeys at fixed prices. Under these contracts the Company is committed to purchase approximately 112,000,000 pounds of live turkeys at a total cost of approximately $30,000,000.

The Company has commitments to expend approximately $19,136,000 to complete construction in progress at various locations at October 31, 1987.

NOTE I — PREFERRED AND COMMON STOCK

The Company has 10,000,000 shares of $.01 par value Preferred Stock and 10,000,000 shares of $.01 par value nonvoting Common Stock authorized, none of which are outstanding.

In 1986, the Company established the "1986 Key Employee Stock Option and Award Plan." These options to purchase Common Stock of the Company are granted to employees at 100% of the market value on the date of grant and expire at various dates ranging from 1988 through 1991. Options are exercisable upon grant and are outstanding as follows:

	Shares	Price Per Share
Granted November 1986	560,000	$14.94 to $15.00
Exercised	(51,000)	$15.00
Balance October 31, 1987	509,000	$14.94 to $15.00

Subsequent to October 31, 1987, options were granted to purchase 535,000 shares at $18.63 per share. These options expire within two to four years from the date of grant.

NOTE J — ACQUISITION

On December 29, 1986, the Company acquired Jennie-O Foods, Inc., a Willmar, Minn.-based company engaged in the growing of turkeys and the processing, selling and distribution of turkey products, for approximately $85,000,000 in cash. The acquisition was accounted for as a purchase and goodwill of approximately $48,000,000 is being amortized on a straight-line basis over 40 years.

Had the acquisition occurred October 28, 1985, unaudited pro forma consolidated sales, net earnings and net earnings per share would be as follows:

	Year Ended October 31, 1987	Year Ended October 25, 1986
Sales, less returns and allowances	**$ 2,341,235,000**	$ 2,130,663,000
Net earnings	**45,148,000**	43,443,000
Earnings per share	**1.18**	1.13

NOTE K — PLANT LEASE

In August 1987, the Company closed its slaughtering and manufacturing plant in Ottumwa, Iowa. In September 1987, the Company entered into an agreement with Excel Corporation, Wichita, Kan., whereby Excel will lease for a three-year period, with an option to buy, the slaughter and cut operations and a major portion of the manufacturing section of this plant. As part of the agreement, the Company is committed to purchase approximately 29,000,000 pounds of meat from Excel for each year of the lease at a price which approximates market value. All expenses related to the plant closing and depreciation expense of the facility and related machinery and equipment, as well as the lease payments to be received under the agreement, are to be deferred until the agreement with Excel expires or the purchase option is exercised. The ultimate net effect of the transaction is not expected to have a negative impact on the Company's financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE L — QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following tabulation reflects the unaudited quarterly results of operations for the years ended October 31, 1987, and October 25, 1986:

	Net Sales	Gross Profit	Net Earnings	Earnings Per Share
	(Thousands of Dollars)			
1987				
First Quarter	**$ 440,480**	**$ 74,281**	**$ 4,453**	**$ .12**
Second Quarter	**556,944**	**95,063**	**10,049**	**.26**
Third Quarter	**574,751**	**93,356**	**11,296**	**.29**
Fourth Quarter	**741,907**	**116,732**	**20,146**	**.53**
	$ 2,314,082	**$ 379,432**	**$ 45,944**	**$ 1.20**
1986				
First Quarter	$ 480,810	$ 83,830	$ 8,902	$ .23
Second Quarter	442,209	78,572	5,098	.13
Third Quarter	485,010	91,069	9,048	.24
Fourth Quarter	552,208	92,057	16,031	.42
	$ 1,960,237	$ 345,528	$ 39,079	$ 1.02

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Results of Operations

Sales and gross earnings in the meatpacking industry are significantly influenced by the fluctuating cost of livestock and consumer demand for meat products. The following discussion analyzes material changes in the major items.

Fiscal Years 1987 and 1986

Fiscal 1987 was a record setting year for the Company. With the labor difficulties experienced in fiscal 1985 and 1986 past, management was able to focus its attention on operations and marketing. The results were a record setting sales volume, which passed the $2 billion mark, and an all-time high in profits.

Two significant events occurred during the year which had a financial impact on fiscal 1987 results and which will continue to have a major effect in the years ahead. Jennie-O Foods, Inc., a Willmar, Minn., turkey processor, was acquired December 29, 1986. In addition to expanding the Company's presence in the fast growing poultry category, the acquisition had a significant and immediate positive effect with Jennie-O Foods providing $132,419,000 in sales with a corresponding effect on profits.

On August 31, 1987, the Company announced a five-year extension of its original two-year marketing agreement with FDL Foods, Inc., Dubuque, Iowa. Under the terms of the extension, FDL Marketing, Inc., a wholly owned subsidiary of Hormel, will continue as the exclusive marketer of all fresh and processed products produced by FDL Foods. The Company also received an extension on its option to purchase the stock or assets of FDL Foods, Inc., until August 29, 1992. As part of the new agreement, the Company made a loan of $5,000,000 to FDL Foods, Inc., secured by a subordinated promissory note.

Although the FDL contribution to sales volume was significant, their financial results through much of the year were unsatisfactory due to poor margins on fresh pork products. The FDL product line is oriented to commodity products and is impacted more severely by price volatility than the Company's product line.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION (Continued)

Two steps were taken during the year to eliminate unprofitable operations which should have a long-term positive effect for the Company. On August 22, 1987, the Company permanently closed the Ottumwa (Iowa) plant. On September 1, 1987, agreements were announced with Excel Corporation, Wichita, Kan., to lease with options to purchase the slaughter and cut operations and a major portion of the manufacturing section of the Ottumwa facility. Terms of the three-year agreements result in an arrangement that should have no negative impact on the Company's financial statements. On November 6, 1987, the Company announced that it will close the unprofitable pork slaughter and related operations at the Austin (Minn.) plant, effective January 2, 1988. The Company does not anticipate any reduction in employment and is studying all options, including leasing or selling the affected operations. Final disposition is not expected to produce a negative financial impact.

These events, combined with a 53-week year and extremely successful sales campaigns by the Prepared Foods Group and Meat Products Group, resulted in record setting fourth quarter sales of $741,907,000, a 34.4 percent increase from 1986. This built on the momentum of the first three quarters and produced the record sales for the year of $2,314,082,000, an 18.1 percent improvement over 1986 sales of $1,960,237,000.

Gross profit in 1987 increased $33,904,000 to $379,432,000, while gross profit as a percentage of sales decreased to 16.4 percent from 17.6 percent in 1986. This reflects a product mix with lower margins on the commodity type products of FDL Marketing, Inc., and higher margins realized by Jennie-O and Hormel product lines.

The effective tax rate in 1987 declined to 42.5 percent from 44.8 percent a year earlier. The federal statutory rate reduction of four percent more than offset the repeal of Investment Tax Credit which had reduced the Company's tax liability by 2.3 percent in 1986. In fiscal 1988, the final 8.0 percent federal rate reduction resulting from the 1986 Tax Reform Act will be realized.

Depreciation in 1987 increased to $32,526,000 from $30,741,000 the previous year due primarily to the Jennie-O acquisition. The Company's investment strategy for plant and equipment continues to emphasize automation and technology at existing facilities with no major construction started or completed in 1987.

Other income decreased to $1,555,000 from $4,491,000 in 1986. This reflects interest and dividends on a smaller balance of Company investments after the Jennie-O Foods, Inc., acquisition.

Advertising expenses were $68,915,000, or 3.0 percent of sales in 1987, compared to $71,423,000, or 3.6 percent, in 1986 due to the smaller advertising budgets of Jennie-O Foods and FDL Marketing, Inc. Advertising expenditures continue to emphasize the introduction and promotion of new branded consumer products. However, the Company's continuing commitment to existing mature product lines as it broadens its base of products was demonstrated with the 50th anniversary of **SPAM** luncheon meat, one of the Company's best-known trademarks.

Emphasis on the introduction of new products will continue in 1988, along with the 25th anniversary of another well-known Hormel product, **Cure 81** ham.

Fiscal Years 1986 and 1985

In addition to the meatpacking industry challenges of declining red meat consumption, industry overcapacity and significant increases in fresh pork and raw material prices, the Company experienced labor difficulties throughout much of fiscal 1986. Despite these difficult challenges and nonproductive distractions of management's attention due to the protracted strike at the Austin (Minn.) plant, the Company realized a record year in sales and net earnings. These results are due in part to success in increasing the sales volume of less volatile value-added, consumer-branded packaged foods.

Sales increased by $458,002,000, or 30.5 percent, over 1985 to a record $1,960,237,000. Tonnage also increased significantly. Both sales and tonnage increases are a result of the inclusion for the first full year of FDL Marketing, Inc., a wholly owned Hormel subsidiary which is the exclusive marketer of the production of FDL Foods, Inc., a Dubuque, Iowa, meatpacker.

Extremely gratifying was the record setting fourth quarter sales of $552,208,000, a 28.3 percent increase from 1985, reflecting primarily the inclusion of FDL Marketing, Inc., sales for a full quarter in 1986 and successful sales campaigns by the Prepared Foods and Meat Products Groups. We believe the success of these campaigns is evidence of increasing consumer acceptance of the Company's diversified value-added product lines. The fourth quarter results take on added significance in light of a strike which shut down operations at the two production facilities of FDL Foods, Inc., for the better part of the quarter, reducing the availability of fresh pork and with it significant sales volume.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION (Continued)

Gross margin for the year increased by $28,371,000 but declined as a percentage of sales. This reflects the lower gross margins on the commodity type product mix of FDL Marketing, Inc. The lower margins of FDL products were partially offset by the higher margins which are realized on Hormel value-added consumer products. Strike related expenses to move production, increase security and retrain the Austin plant workforce were incurred primarily in the first half of the year and reduced margins. Increased efficiency and utilization of Company manufacturing facilities helped offset strike related expenses and were a result of careful planning prior to and during the Austin plant strike.

The effective tax rate in 1986 declined to 44.8 percent from 46.2 percent a year earlier. The decrease is a result of adjustments to the tax provision in 1986 in connection with normal federal income tax audits. Investment tax credit reduced the Company's income tax rate 3.1 percent in 1985 and 2.3 percent in 1986. The Company would have realized an additional investment tax credit of $463,000 if the 1986 Tax Reform Act had not retroactively repealed the credit for projects not under contract as of January 1, 1986.

As a result of the Tax Reform Act of 1986, the Company expects its effective income tax rate to be approximately 44.5 percent in 1987 and to decline to approximately 36.5 percent in 1988. The Act should increase future net earnings even with the elimination of investment tax credit.

Depreciation in 1986 increased to $30,741,000 from $28,087,000 in 1985. The Company's continued investment in automation and renovation of existing facilities is responsible for this increase.

Other income increased to $4,491,000 from $2,959,000 in 1985. Primarily this reflects interest and dividends on a larger balance of Company investments.

Although advertising expenses increased by $721,000 to $71,423,000 in 1986, they declined in 1986 as a percentage of sales. This is a result of the sales of FDL Marketing, Inc., which are primarily commodity, fresh pork products requiring smaller advertising budgets. The higher level of advertising expenses in 1985 and 1986 over historical levels reflects increased activity in the introduction and promotion of branded consumer products. The introduction of new products to complement the existing mature product line will continue in 1987.

Maintenance and repair expenses declined in 1986 by $656,000 to $28,028,000, primarily as a result of reduced operations in Austin and Ottumwa resulting from the labor dispute.

Liquidity and Sources of Capital

Working capital at the end of 1987 was $147,969,000, a decrease of $48,230,000 from 1986 and $5,016,000 from 1985. The current ratio decreased to 1.68 from 2.58 and 2.13 for 1986 and 1985, respectively. The decreases in working capital and the current ratio were a result of current liabilities being increased by the $50,000,000 in Three-Year Notes due in September 1988. Cash generated from operations throughout the year was $58,083,000, a 21.6 percent increase from the $47,756,000 generated in 1986. There were 23.9 days sales on accounts receivable at the end of 1987, compared to 21.9 days sales the previous year. Inventory on hand equaled 25.7 days sales, down slightly from 26.3 in 1986.

Long-term debt outstanding at the end of fiscal 1987 consisted of $25,000,000 in Two-Year Notes borrowed in December 1986 and used in the acquisition of Jennie-O Foods, Inc., and industrial revenue bonds at various Company locations. The Company continues to be in a strong financial position which enables it to assume debt necessary to take advantage of new business opportunities without impacting current operations.

Additions to property, plant and equipment, excluding the assets acquired in the Jennie-O acquisition, were $18,332,000, down from the $21,477,000 and $29,444,000 in 1986 and 1985, respectively. The expenditures were for modernization and automation as no major construction was started or completed in 1987.

Major sections of the Tax Reform Act of 1986 will be effective for the Company in 1988. The cash inflow, resulting from the reduction in income tax rates due to the Act, will be partially offset by changes for tax purposes in the depreciable lives of property and additional costs that will be required to be capitalized as part of inventory.

The Company's deferred tax balance will be reduced from current levels as a result of the 1986 Tax Reform Act and by the "liability method" of accounting for income taxes being proposed by the Financial Accounting Standards Board in a current exposure draft. This is expected to be issued early in 1988.

Inflation has not been a major factor in the Company's operation or in the financial results and is not anticipated to be significant in 1988.